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FOREIGN OPERATIONS, EXPORT FINANCING, AND RELATED PROGRAMS APPROPRIATIONS FOR 2000

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS

HOUSE OF REPRESENTATIVES

ONE HUNDRED SIXTH CONGRESS
FIRST SESSION

SUBCOMMITTEE ON FOREIGN OPERATIONS, EXPORT FINANCING, AND RELATED PROGRAMS

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PART 3

Page

Export and Investment Assistance..... 1
AID Administrator..... 115
FY 1999 Emergency Supplemental Request for Central America and the Caribbean..... 217

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FOREIGN OPERATIONS, EXPORT FINANCING, AND RELATED PROGRAMS
APPROPRIATIONS FOR 2000

Thursday, February 11, 1999.

EXPORT AND INVESTMENT ASSISTANCE

WITNESSES

JAMES A. HARMON, PRESIDENT AND CHAIRMAN, EX-IM BANK
GEORGE MUNOZ, PRESIDENT AND CHIEF EXECUTIVE OFFICER, OPIC
J. JOSEPH GRANDMAISON, DIRECTOR, TDA

Chairman Callahan's Opening Statement

Mr. Callahan. We are going to go ahead and get started even though many of the members are not here yet, but we want to finish this thing as expeditiously as we can.

I would like to compliment Mr. Knollenberg and two of our newer members for being prompt, Ms. Kilpatrick and Mr. Jackson. We hope you will set an example for the other members of the committee that when we say 10 o'clock, we mean 10 o'clock. Good morning.

Before turning to my statement, I do want to introduce Ms. Kilpatrick of Michigan. We are happy to have you on our subcommittee and we know you are going to enjoy it. We try not to work too hard, but we have a lot of serious work to do and we do it for the most part in a very nonpartisan fashion. I think you will thoroughly enjoy our committee. We certainly welcome you here, as well as Mr. Jackson of Illinois.

We are happy to have you as well on our committee. You will notice some of the beautiful paintings here in this room. Brumidi frescoes. It is very historical. We will certainly have our staff brief you on this, because it is a great place to show off to constituents when they come to Washington.

Good morning, Ms. Pelosi.

Ms. Pelosi. Good morning, Mr. Chairman.

Mr. Callahan. It is 10:04.

Ms. Pelosi. We won't take it out of your time.

Mr. Callahan. In any event, I was just introducing two of our new members----

Ms. Pelosi. Isn't that wonderful? Bravo.

Mr. Callahan [continuing]. Welcoming them here and telling them we don't have the bells and the buzzers and the red lights and the green lights. We are very generous. But we do have a silent timer, and we try to have the 5-minute rule on our testimonies anyway. But we don't try to cut you off, and we certainly don't try to distract you with all those bells and lights, because we want to hear from you. We want your input.

We have other new members coming on our subcommittee. Jerry Lewis used to be on this subcommittee. He is not here yet. Martin Sabo is coming to our committee. We are anxious to have them back here.

We have lost one on our side; Mr. Frelinghuysen left and went to another subcommittee.

In any event, our witnesses today are Jim Harmon, Chairman and President of the Ex-Im Bank; George Munoz, Chairman and Chief Executive Officer of the Overseas Private Investment Corporation; and Joseph Grandmaison, Director of the U.S. Trade

and Development Agency. These three agencies are funded in the first title of our bill, the Export and Investment Assistance title.

Although our American economy has remained healthy for a record length of time, many of our trading partners are not doing as well. Maintaining export markets in Asia, East Asia, Brazil, and the former Soviet Union is a major challenge for all of these agencies.

Risk management is particularly the focus of the Ex-Im Bank and to a lesser extent for OPIC. I would like both agencies to report on any potential claims they are facing and the impact of the financial crisis on your profits and reserves, if any.

All of you are working to expand trade and investment in Africa and this committee supports you in that effort. It will not be easy. The resumption of fighting between Ethiopia and Eritrea and the involvement of so many of its neighboring armies in the Congo make your task even more difficult.

Closer to home, the nations of Latin America and the Caribbean have been our major trade and investment partners and, in my opinion, still are the greatest potential we have for trade and development. We in the last 4 years have been somewhat critical of the administration for not placing a sufficient emphasis on Central and South America, and we want to encourage you all to continue your efforts in that direction.

For years, the administration seemed to have been of the opinion that there is only one country in this hemisphere that needs help and that is Haiti, and this committee has been to Haiti twice. While we recognize the importance of trying to assist the people of Haiti, the progress has been almost nil with respect to them having some semblance of a democracy and providing something for their very needy citizens.

The Caspian Sea energy development is an administration priority. We support that. This committee has also visited that region. We spent a lot of time in the Caucasus region. But there, too, you have a political and economic situation that is rather unstable. Russia seems to be making trouble as it seeks to control the export routes for oil and gas in the Caspian Sea.

I would like for TDA, when you come, Mr. Grandmaison, to give us some of your thoughts on the opportunities and risks there.

Mr. Lewis, thank you very much for coming. I know you have another subcommittee meeting and you are going to have to leave in a short time. But I have already welcomed Ms. Kilpatrick and Mr. Jackson, the new members of our committee. And to Mr. Sabo and to you for coming to our committee, thank you. We are happy also to have you here.

We start very promptly at 10 o'clock, and you are expected to be here when I say 10 o'clock.

Mr. Lewis. I went next door for coffee. I thought the door was locked.

Mr. Callahan. We apologize for the compactness of this room. There was a lot of talk about me possibly changing committees and other committees were offered to me, but I thought with the problems that we have facing us with foreign policy and foreign operations that I would stay here, because

that is probably where I could best serve. But the commitment that was given to me when I agreed to stay on this committee is that we would be given a permanent, larger hearing facility. I am sure it is forthcoming; I think it is that park out there.

But we are still insisting that we be given a permanent hearing room, Jerry. We even tried to confiscate your old headquarters next door. But so far we have not gotten that.

In any event, we welcome the three of you before our committee today. At this time, I would like to yield to Ms. Pelosi, who is the ranking Democrat on our committee.

Ms. Pelosi. Thank you very much, Mr. Chairman. Nobody is happier than I that you did not change committees. I think we have a good working relationship on this committee, and I know that our new members will find that soon.

I want to join you in welcoming Mr. Jackson, in seniority, and Ms. Kilpatrick to our committee. They will be wonderful additions in joining our fight to have greater recognition for the needs of the Southern Hemisphere and what we are doing in terms of export finance, bilateral assistance and multilateral assistance.

It seems silly for me to be welcoming Mr. Lewis. He is such a distinguished and senior member on the Appropriations Committee, but it will be an honor to serve with him on this subcommittee.

We will miss Mr. Frelinghuysen, but I am glad to see most of our folks are back. I look forward to working with you. We work in a bipartisan way when we can on this committee.

Mr. Chairman pointed out that I was a few minutes late, and I was going to use those minutes to praise him, so I will put those remarks in the record.

Mr. Callahan. I would like to have them in writing anyway.

Ms. Pelosi. You didn't tell me, Mr. Chairman, that they were tearing down this wall. In any event, on our side, we are also joined by a very distinguished and more senior member, Mr. Sabo, on our committee, and I hope that he enjoys his participation and will stay with us for years to come on this subcommittee.

Thank you, Mr. Sabo. I know you had your choice of anything. We are very delighted that you chose to come to this committee.

Mr. Sabo. Happy to be here.

Ms. Pelosi's Opening Statement

Ms. Pelosi. Today, I am pleased to welcome Mr. Harmon, Mr. Munoz and Mr. Grandmaison to our hearing on export financing and related programs. However, again I want to say how important it is for us to work together on these issues of export finance, and I know that our new members will add a great deal to that debate.

The subcommittee, under Chairman Callahan's leadership, has acted in a bipartisan manner and produced foreign aid bills which reflect the wide range of views of the subcommittee members, and which enable the U.S. to meet vital national security needs around the world. Not that I always agree with his bills, not that I even always vote for them, but he does give us the opportunity to have our say. I look forward to

working with him and with all of you.

I am pleased again to welcome the representatives of the three export-related agencies funded in our Foreign Operations bill to this hearing. These agencies provide direct support to the U.S. economy by easing the way for American exports. Their importance grows as exports account for a larger and larger share of America's jobs growth. As the budget request for these agencies grows accordingly, we must ensure that the terms and the conditions of our assistance are consistent and responsive to the need to preserve the world's environment, the respect for human and labor rights, the need to promote small and women-owned and minority-owned businesses, access for the diverse and expanding array of export-related companies, and finally that the credits and loans are extended with an appropriate assessment of risk to the U.S. taxpayers.

Again, I want to say that our committee has emphasized over and over again the important focus on the Southern Hemisphere, on Africa and Latin America, where we must do much more; and of course that will come out in our questions. I won't take any more time except to again say what a pleasure it is to serve with Mr. Callahan as our chairman.

I welcome the witnesses and look forward to their testimony.

Thank you, Mr. Chairman.

Mr. Callahan. Thank you, Ms. Pelosi. It is not normal, but since we have four, some returning, some new members to our committee, I would like to express to you all that if you have anything you would like to say, we will welcome your comments at this time. Any of the four of you that might want to comment?

Ms. Kilpatrick. Thank you, Mr. Chairman and Ranking Member Pelosi for the opportunity to serve with you. I have been very interested in foreign affairs for a long time. That the chairman took the personal time to call and welcome me, I think that is extra special. I look forward to working with you.

Thank you.

Mr. Jackson. Let me just associate myself with everything that Congresswoman Kilpatrick said and also thank the chairman for his earlier admonishment to be on time.

Mr. Callahan. I would like to compliment the two of you for being on time.

Jerry.

Mr. Lewis. Mr. Chairman, as you know, it was my privilege to serve on this committee for almost a decade. I only left it because there was an opportunity to go to the Defense Subcommittee, and I couldn't stay here and do that, too. I must say it is a great honor for me to be able to return.

I feel strongly, Mr. Chairman, that America's role in the world is fundamental. It is why we should have a Congress in the first place. I really feel that foreign affairs issues ought to be nonpartisan. They should end at the water's edge. If we work at that, we can have a huge impact on the world. I am pleased, under your leadership, to try to make a contribution.

Mr. Callahan. We thank you. We will tell you, all of you--of course, you and Martin certainly know, but we haven't had a foreign relations authorization bill that has passed in the

last decade or so.

A lot of the authorization problems theadministration has have come through this committee. For example, OPIC and all of your agencies that are testifying today must be reauthorized every 5 years. But it becomes a responsibility of this committee to authorize as well as to appropriate because the Foreign Relations Committee hasn't been real successful in passing legislation. It is not any disrespect to any members of the Foreign Relations Committee.

I thought it was interesting last weekend, Jerry, you and I talked about going to Jordan to the King's funeral. Well, neither of us could make the connections to get over there since we had so little notice to go, but the chairman of the Foreign Relations Committee went with the President at the President's invitation. Ironically, from Air Force One they called back, wanting us to handle legislation to give Jordan some money. My thoughts were, why don't you get the Foreign Relations Committee to do it?

In any event, you will learn that.

Ms. Pelosi. They are the ceremonial committee.

Mr. Sabo. Mr. Chairman, to all the members as it relates to your time for meetings, I advise them to ask you whether it is a.m. or p.m. and if anybody is interested, I will tell them the story.

Mr. Callahan. One night we had a conference committee meeting, and Martin wasn't on the committee, but they needed some additional appropriators to serve out the balance on the conference committee and we were in heated session. In any event, about 7:30 we decided to break for dinner and go to have dinner and then come back at 9 o'clock. I walk out, I run into Martin in the parking lot. I say, we have recessed until 9. So he got in his car, went home and went to bed.

Mr. Harmon, good morning to you. We will submit your entire statement into the record. We welcome you to the committee this morning.

Mr. Harmon's Opening Statement

Mr. Harmon. Thank you very much, Mr. Chairman. I sense the cordiality of the committee members and the intimacy of this room where we can have even a closer relationship between the witnesses and the members of the committee.

Mr. Chairman, Congresswoman Pelosi and other members of the subcommittee, Ex-Im Bank is requesting $839 million for program budget and $57 million for the administrative budget. Comparable levels of fiscal year 1999 are $765 million and $50 million, respectively.

I have presented some charts here. If you look at them, I will try to go as quickly as I can. The first chart shows a very stable program budget for a period of time. For example, over a 5-year period, from 1995 to the year 2000, the increase in program budget is less than 10 percent.

With the fiscal year 2000 budget request, we estimate the Bank will be able to facilitate nearly $20 billion in exports, which is almost four times what it was 12 years ago as illustrated in chart number 2. Chart number 2 shows significant growth in Ex-Im Bank support of exports from 1988 all the way to the year 2000. This growth was interrupted slightly last

year because of financing exports to higher risk countries that required more funds from our program budget. As a result, we could not do all the business the Bank had in-house.

In any case, for fiscal year 2000, we project that the Bank will support the largest amount of exports in any single year of its 65-year history.

Ex-Im Bank's mission is to support American exports and thereby sustain U.S. jobs. This mission may be more important today than at any time in the past several years. First, the global financial crisis has caused a dramatic retrenchment in private capital flows, impacting trade, economic well-being and jobs in both the developing world and in the United States.

Second, trade has never been more important to our economy, with exports accounting for approximately one-third of American job growth in the last 5 years. In this difficult environment, Ex-Im Bank last year directly supported more than 2,000 U.S. exporters, 80 percent were small businesses, and 20 percent were new customers.

Moreover, Ex-Im Bank indirectly benefited tens of thousands of other businesses. Last year, as the private sector banks withdrew, we moved decisively to assist U.S. exporters, thereby protecting U.S. jobs.

In considering Ex-Im Bank's program budget, it is important to reflect on experience. Based upon my 38 years in the investment banking world and living through eight bear markets, I am confident there will be a recovery in the developing world and these countries will re-emerge as important markets for U.S. exports.

The global financial crisis has resulted in an unprecedented credit crunch in the developing world. This is the major factor preventing recovery. In 1996, nearly $200 billion in loans were made to developing countries. Most were initiated by private financial institutions. This year, it is projected to be about $17 billion. This extraordinary decline has made it very difficult for developing countries to purchase U.S. goods. While Ex-Im Bank can never replace the private sector, we can play a critical role in keeping trade flowing and encourage private lenders to remain engaged. Ex-Im Bank was able to fill some of this gap.

If you look at the last chart, chart number 3, for just a brief moment, you will see what is a major theme throughout our presentation, and that is the private sector credit flows to the developing world dropping from $200 billion down to about $17 billion. At the same time, our authorizations went from a little bit less than $12 billion up to a little bit more than $14 billion from 1996 through 1999. As you can see, Ex-Im Bank was able to fill some of the gap.

Much of our success comes from short-term programs for small business, export credit insurance and working capital guarantees to help produce exports. For fiscal 2000, we estimate these two programs will total respectively about $4.7 billion and $850 million compared to $4.1 billion and $650 million in fiscal 1999.

Ex-Im Bank is playing a critical role in Asia and throughout the world. It is worth taking a moment to look at what we did in Korea last year. In 1997 Korea purchased $33 billion in goods and services from the United States. Last

year, purchases declined to approximately $15 billion.

When Korea's economy started to collapse, Ex-Im Bank responded effectively with a short-term insurance program thatfacilitated more than 2,400 transactions in an 8-month period compared to barely 50 transactions in all the prior year. This support also encouraged the private sector to maintain at least a modest presence during this difficult period.

In Brazil, which I visited in November, Ex-Im Bank reopened in the public sector; and recently, we offered a $1 billion short-term insurance program.

In Russia and the New Independent States, Ex-Im Bank has been a pioneer in helping open markets for U.S. goods. Since August we have not approved any new transactions in Russia, but despite current economic difficulties, we are cautiously hopeful that there will be opportunities for American exporters in the future.

Sub-Saharan Africa is another region that holds opportunities. Last year, I was the first Ex-Im Bank chairman ever to visit sub-Saharan Africa. With the help of our African Advisory Committee, chaired by former Representative Floyd Flake, we are determined to increase exports to Africa.

The global crisis has impacted Ex-Im Bank's portfolio. We have approximately $1.1 billion in workouts. Fortunately, there is significant collateral and we are very closely monitoring these loans to eliminate or minimize losses.

In order to achieve our program objectives, it is critical to increase the Bank's administrative budget to support four areas crucial to our mission: one, redeploying staff in key countries so that Ex-Im Bank can compete with other nation's export credit agencies and help U.S. exporters meet foreign competition; two, staff training; three, expanding outreach to small and rural enterprises in keeping with our congressional mandate; and four, improving technology to automate our short-term insurance program to streamline case processing. This budget is essential to accomplish what the Congress has asked us to do, to keep American exporters competitive.

To do this, we must be more responsive to our customers. At the Bank we often say we not only have to sell the buyers, but we also have to sell the sellers. Internationally, we must make our programs known to more potential buyers and domestically we must make more businesses, banks and other lenders aware of our programs. Although the U.S. economy is strong, one of our weak links is exports to the developing world.

Finally, I must acknowledge how well Ex-Im Bank's talented staff is responding to challenges in formulating new ways for the Bank's programs to sustain U.S. jobs.

I am pleased to answer any questions. Thank you.

Mr. Callahan. We thank you, Mr. Harmon. With your indulgence we are going to hear from all three of our panelists today and then permit questions.

[The statement of Mr. Harmon follows:]

[GRAPHIC(S) NOT AVAILABLE IN TIFF FORMAT]

Mr. Callahan. We will next hear from Mr. George Munoz.

George, if you would take this seat. Mr. Grandmaison, you can come on and sit at the table, too.

This is George Munoz, the President and CEO of OPIC, the Overseas Private Investment Corporation. George, we will submit your entire statement for the record and ask you to abbreviate it if possible.

Mr. Munoz's Opening Statement

Mr. Munoz. I will, Mr. Chairman. Thank you so much, Congresswoman Pelosi and members of this subcommittee; I am very pleased to be here.

I am happy to report, Mr. Chairman, that OPIC is working very closely with of TDA, with Jim Harmon of Ex-Im and Joe Grandmaison TDA. We have a strong working relationship of which I am very proud. Because I am interested in addressing any issues or questions you may have, I will take only a few minutes to highlight the points in my written statement that are worthy of special note.

Mr. Chairman, I set out four priorities for our agency. High among them was being prudent with our exercise of the full faith and credit of the U.S. Government. Second, we want to respond to the needs of the American business community as it attempts to bring capital and skills to developing countries and emerging economies, primarily when it is in the interest of the U.S. Government to bring development and stability to strategic regions of the world.

Thirdly, we want to expand our reach to the U.S. small business community. Lastly, we want to remain self-sustaining and relevant by being a high-performance organization striving to have the best in people, products and our systems.

Mr. Chairman, I would like to touch upon five points which will help this committee continue its support of OPIC. First, I can confirm that the agency for the 27th consecutive year operated at no net cost to the taxpayer, where our revenues were greater than our expenditures, including our setting aside of reserves against any potential claims or losses.

Second, for this year and for the coming year, with your help, we will respond to the special areas of needs, including those in Africa, Central America, and the Caspian Sea energy development, and, throughout all this assistance, we will do it in a manner that supports environmentally sensitive development.

Thirdly, Mr. Chairman, this committee and other members of the Congress have asked us to demonstrate the positive impact of our agency and programs, not only on the developing countries but the impact on our own country. The most recent review of actual performance verifies OPIC's expectations of the positive impact on the U.S. economy.

To more fully understand how many U.S. businesses are indirectly participating in the global economy because of OPIC's support, we have been working to help identify for public release suppliers from all 50 States to OPIC-supported projects. We have identified over 1,000 suppliers in the past few months alone that have sold over $1.7 billion in goods and services in a single year to 125 OPIC-supported projects. Nearly two-thirds of these suppliers were U.S. small businesses.

In the written testimony, I give several examples of the

multiplier benefit associated with OPIC projects. One of these examples is in Baton Rouge, Louisiana, where a company has identified more than $83 million in goods and services purchased in 1 year to support the agribusiness project in Ethiopia. These goods and services came from 264 different companies in 32 different States of this country, of America.

As you know, Mr. Chairman, OPIC does not support any project that might harm the U.S. economy or will result in a loss of the U.S. jobs. OPIC collects and analyzes, both geographically and sectorally, the projected U.S. employment and associated economic benefits of the projects it assists.

We have also received State and local endorsement for OPIC programs. Recently we received the endorsement of the Agricultural and International Trade Committee of the National Conference of State Legislatures and also the National Association of Counties and U.S. Conference of Mayors.

I am pleased to report that we are making progress in our reaching out to small business. We have developed a system to expedite the processing of small business loans and insurance requests and have decreased the fees associated with direct loans and insurance retainers. Furthermore, it is estimated that approximately two-thirds of identified suppliers of OPIC-backed projects around the world are U.S. small businesses according to newly collected data.

Fourth, Mr. Chairman, if there ever was a year in which OPIC was put to the test as, I am sure, were Ex-Im and TDA, it was 1998. As Treasury Secretary Robert Rubin noted just recently, the financial crisis of the last 18 months has often been referred to in some ways as the most significant financial crisis of the last 50 years. And Federal Reserve Board Chairman Alan Greenspan also noted the storm coming our way as a result of weaknesses in many foreign economies.

As I have consistently stated, my highest priority for OPIC is to have prudent financial management of our portfolio and activities. I am happy to report that despite the turmoil in the emerging markets, OPIC has stood solid in this midst.

First, we have just received a clean audited opinion from our outside independent auditors. Second, this year I have asked, in consultation with our independent auditors, that we increase our general reserves so as to lessen any risk of loss beyond our reserves in future years. I did this because we can afford to.

Our revenues are up, and I want to make sure that our reserves are also up. Yet, our recovery rates remain high and our portfolio is performing well.

I know you and your staff are interested in OPIC assessment and exposure in certain countries of the world including Russia, Indonesia and Brazil. My written testimony touches upon these countries. Briefly, I can assure this committee that our portfolio remains strong in each of these countries. There are some potential claims, but there may be ways to limit or eliminate them.

Last, but certainly not least, Mr. Chairman, I would like to formally request that Congress authorize OPIC to use $35 million from its user fees to cover administrative expenses and $24 million, also from OPIC's own funds, to finance its credit-related programs. OPIC collections in fiscal year 2000 will

continue to exceed uses and will result in a net budget contribution of $204 million.

I would like to make note, Mr. Chairman, that this is the first time we have broken over $200 million in negative budget authority and negative budget outlays, which will help this committee fund other important programs.

OPIC's overall budget request is down. For fiscal year 2000, the $24 million request for credit programs and $35 million for administrative expenses represents a decrease of more than $25 million, or approximately 30 percent, from the amount approved just last year. The decrease really is attributable to the decrease in credit, funding. Part of this reason for this is because we have perfected and fine-tuned our credit funding mechanism and we have found some efficiencies there.

Our administrative budget is going up by $2.5 million compared to last year. But in reality, when you look at how much we received this year with the additional $2.1 million we received for Y2K, with the support of this committee and its staff, we really are operating this year with approximately $34.6 million. So by asking for $35 million, our increase is quite small.

In conclusion, I would like to say that the Overseas Private Investment Corporation has fulfilled its statutory requirement to operate on a self-sustaining basis despite the challenging global financial conditions. We look forward to continuing to help American companies compete in the global economy while supporting development and economic stability in areas of strategic U.S. interest.

Thank you, Mr. Chairman and members of the subcommittee for your support of OPIC. We look forward to answering any of your questions.

Mr. Callahan. Thank you, George.

[The statement of Mr. Munoz follows:]

[GRAPHIC(S) NOT AVAILABLE IN TIFF FORMAT]

Mr. Callahan. Mr. Grandmaison, the Director of the U.S. Trade and Development Agency.

Mr. Grandmaison's Opening Statement

Mr. Grandmaison. Mr. Chairman, thank you for the opportunity to be with you. I would ask that my remarks be submitted for the record. I might make just a few points, taking your lead, to get to as many questions as possible.

As you know, TDA's role is to provide early project planning assistance money for capital infrastructure projects. How are we doing is the question. To answer that question, I would like to refer you to the performance goals and measurements that our agency has adopted. The most important one is the export multiplier, that is, for the amount of money that we invest, how many exports do we facilitate?

In 1993, the ratio was 25 to 1. For every dollar, $25 facilitated exports. In 1998, I am pleased to report it is now 32-to-1, a sizable increase. We have now been able to identify, since the agency began, $12.3 billion worth of exports we have

facilitated. A good example, as my colleague George Munoz mentioned, is a project that involved a Baton Rouge company. In that case, TDA had made an early cost-share investment with that company to develop that particular project.

The hit rate is the second measurement that we use. In private industry they say that when they do feasibility studies, if they get 1 or 2 successes out of 10 attempts, that is considered good. We are pleased to say that we are maintaining our 1 in 3 average.

We also don't invest in projects that will go forward irrespective of our involvement. It doesn't make any sense. If a project is going to go American, regardless, then we shouldn't be putting taxpayers' money into it.

What we do is, we invest in projects that, by participating, by providing that U.S. Government endorsement, of a project, brings additionality and makes it more likely that that project becomes successful.

Small business is one of our primary targets; 60 percent of the companies we work with are small. One-third of the budget that we have allocated to companies goes to small businesses. The only way to maintain those averages is by continually doing outreach as much as you possibly can.

You have to keep in mind, we are a 41-person agency. But we do everything we possibly can to do what you all challenged us to do, and that is, to take the program out of the Beltway and bring it to wherever we possibly can, involving more companies around the country.

A good example of that is, the beginning of next month, we are doing a Southeast regional outreach seminar in Florida. Normally, we have done that here in Washington. We decided that did not make sense; so we are trying to do it on a regional basis. If that is as successful as it appears it is going to be, we hope to continue doing that.

Targeting sectors. A couple of the points that we have learned is that in the feasibility studies that we finance, we are trying to aim at the high-tech end of any of the projects we are involved in. The reason is that in today's world, as it becomes increasingly competitive, i.e., where the products are manufactured, if there is a high-tech piece to a project, then we know it is going to go American. It is that simple. Whether it is the WAAS technology, having to do with satellite-based technology, or SCADA systems for an energy project, it doesn't make any difference. If you can move it up so it is more high tech, then we are going to get exports from it.

Congressman, you mentioned the Caspian region. We are very pleased and proud with what we have been able to do. It all began with a major conference last May in Istanbul where we had 700 attendees. We have invested in five pipelines in the region. We continue to work with all of the governments in the Caucasus.

The next step is, our three agencies, for the first time have developed a business development team, working out of Turkey, aimed especially at the Caucasus region.

One of the things we are trying to do is not to aim our efforts exclusively at the question of pipelines, but on making U.S. companies more aware of the opportunities that will come about because of the pipelines, whether it be wastewater

treatment facilities, airports, or highways.

Now, towards that end, once again our three agencies are cooperating on a U.S.-Caspian ambassadors mission to the United States. We are going to use our U.S. ambassadors to bring U.S. companies together to explain that this is a region that is beginning to happen, and they have to get in on the ground floor. If they don't, by the time they pay attention to it, when they go to the caspian region, people will be speaking French and German. So it makes a lot more sense for them to get involved now.

Perhaps the most dynamic change in our program has been the change from working on public sector projects almost exclusively 10 years ago to private sector projects now. In 1990, only 10 percent of our projects were private sector projects. Because of the changing dynamics around the world, I am pleased to say that in 1998, almost 50 percent of the projects we invested in were private sector projects. This is a major dynamic that has changed, and we are attempting correctly to do whatever we can to further facilitate it.

In terms of regions, Africa has been mentioned several times. If you will forgive me, I think TDA has an exceptional program in Africa. It is the region of the world that, for us, is growing most quickly.

Once again, our three agencies cooperated in financing a country manager from TDA who, for 90 days, went to Johannesburg, and worked out of the Department of Commerce's office. He conducted business development efforts in the sub-Saharan countries, something we had not done before. It was cost effective because, rather than going in and just talking about TDA, he could also talk about OPIC and Ex-Im.

As a result, whereas last year the regional allocation for Africa, was invested by the end of June, this year by the end of March our regional allocation will have been invested. But that is good. We are finding good projects, a great deal of U.S. interest and we are obviously doing everything we can to follow through.

In conclusion, Mr. Chairman, the recommendation from the administration is that we get a modest increase that will bring us up to $48 million. We realize there are always a great many pressures on the committee in terms of the decisions it has to make. We respectfully make the commitment to you, as I have each year that I have been here, that whatever the funds are that you allocate to TDA, I promise you, with the quality staff that we enjoy, we will do everything we can to meet your continued confidence.

I thank you.

Mr. Callahan. Thank you, Mr. Grandmaison.

[The statement of Mr. Grandmaison follows:]

[GRAPHIC(S) NOT AVAILABLE IN TIFF FORMAT]

REAUTHORIZATION

Mr. Callahan. One thing I guess we should ask all three of you with respect to reauthorization problems. I have forgotten what we did last year with respect to--I know we reauthorized a 2-year period for OPIC. I am told, for TDA, 5 years; and Ex-Im

Bank, 4 years. I guess we could look at OPIC.

Mr. Munoz. Mr. Chairman, we are asking for a 4-year reauthorization. We are very hopeful that the Congress will see that that is a good time frame for us.

Mr. Callahan. I don't know if we can go 4. I certainly would support it. I don't think, however, we can risk the International Relations Committee bringing this issue to the floor. It has been tried in past years and put us in a very difficult position, having to reauthorize against the wishes of the House. We don't want to go through that again.

I don't know if we can go 4, but I will talk to Ben Gilman and see.

I think we ought to at least get you past the election year cycle of having to go to the floor and argue all of these things about corporate welfare and argue against Ralph Nader, and some in the House who are running for President who have been so vocal against your agencies. So we want to get everybody past the presidential and congressional elections. We will take a look at that; four years is, I guess, all right for you.

I am also pleased to hear indications of your efforts of trying to utilize some of your resources in smaller ventures. Four or 5 years ago we saw an indication that some of your agencies thought the only thing you were supposed to do was to facilitate the building of dams or facilitate airplanes, Boeing, for example.

I am real happy, especially with your numbers, Joe, increasing from 10 percent to 50 percent. That is a great direction. I shall continue to encourage all of you to utilize some of your resources to assist small businesses to expand their opportunities overseas and to help the countries actually through the small business thing.

I know in insurance--most people in small business, George, don't even think about trying to do business with another country because they are so concerned about--they don't understand the falling dollars, they don't understand the international monetary system, and they are afraid they are not going to get their money.

Mr. Munoz. That is correct.

Mr. Callahan. If there is an opportunity for you all to really expand, even further, into these small projects, assisting small American businesses in overseas opportunities, I would like to see continued progress in that respect.

The third question I have today is, briefly, the Y2K problem. Do all your agencies feel comfortable with where you are and that you will not be experiencing any major problems come 2000?

Mr. Munoz. Mr. Chairman, there are two areas to look at. One is just our own operations, and thanks to the support of this committee, yourself personally, for our Y2K funding, we can report that we are going to be making the time lines that OMB has set out. There are going to be some possible phase differentials, but we are pretty much on line there.

The second way to look at it, of course, is our customers in our overseas operations and how much that will be affected; that is pretty much outside our control. I think there are some good efforts being made by the World Bank, IMF and other

international bodies, to bring attention to this issue. But we are in touch with all of our clients to make sure that that is a high priority that they are looking at.

At this stage they are aware of it. A lot of it is outside of people's control.

Mr. Callahan. Mr. Harmon.

Mr. Harmon. I think we are in okay shape. But we worry about the same thing George has said in terms of the developing world getting up to speed. That will be a challenge; it will be a challenge for us, too. Everyone who is dealing with it, whether its Indonesia, Russia, or Brazil and so forth will run some risk.

Mr. Callahan. But in your own agencies you feel comfortable?

Mr. Harmon. Yes.

Mr. Callahan. Joe.

COMMERCIAL OPPORTUNITY

Mr. Grandmaison. We are fine. For every challenge overseas, the door opens for a commercial opportunity. Hence, in Bangkok on March 29, we will be having 50 U.S. companies meeting with banking sector project sponsors so that they can help solve their problem by buying U.S. equipment.

I don't want to seem tawdry about identifying the commercial side of that, but for every challenge, there is obviously a commercial opportunity, and we would like to try to maximize it.

Mr. Callahan. Ms. Pelosi.

Ms. Pelosi. Thank you, Mr. Chairman. Mr. Chairman, in my remarks, saying how much I was looking forward to working with everyone today, I neglected my sister Nita. We spend so much time working together. But how pleased I am that she has chosen to stay on our committee where she had plenty of opportunity as well. She is a great leader on all of these issues.

And how blessed we are to have our three witnesses heading up these important agencies. You know so much, you bring so much experience and interest, and reputation. I think that those of us who are concerned about increasing U.S. exports abroad and creating more opportunities have to recognize how fortunate we are to have the three of you where you are.

My first question will be to Mr. Harmon, in friendship. As you know, we have an overlay. All of my questions to all of you will relate to the others. I will take off on a point that Mr. Munoz said.

us jobs

He said OPIC does not support any project that will result in the loss of U.S. jobs. Since this is supposed to be about the creation of U.S. jobs, I have serious concerns about some work that Ex-Im may be doing that may result in, not intentionally, the transfer of technology. You don't have to answer that right now, but we have talked about it, and I hope that we can get some kind of a report back about--especially in aircraft financing, that we were not financing the transfer of U.S. technology abroad for cheaper labor.

AUTHORIZATION TO FINANCE HELICOPTERS

My first question isn't about that; it is about Turkey. In 1990, Congress extended Ex-Im Bank a limited authority for credits for the sale of helicopters to Turkey and Greece. My question relates to that.

Do you think that the 10-year implementation period for this sale and the use of a multiple export license to implement it is consistent with congressional intent?

More generally, do you think the Ex-Im Bank should be involved in the sale of military equipment?

Mr. Harmon. Well, thank you very much.

In 1990, Congress enacted very special legislation authorizing this specific sale. The legislation provided Ex-Im Bank with the authority to approve it. This approval expires in July of 2001, so the support is available for almost 11 years. Ex-Im Bank authorized slightly over $1.1 billion to support the sale of helicopters to Turkey. To date about $350 million of those helicopters have now been sold.

Your question is, did I think that it was the right thing to do back in 1990.

It is hard for me to say since I was not at the Bank when this particular decision was made.

Ms. Pelosi. No, no, no. Do you feel that the ongoing implementation of this sale is consistent with Congressional intent?

Mr. Harmon. We were for a time not authorized to finance military equipment with only one exception, anti-narcotics exports. Some years later, as you know, there was a dual-use provision that allowed Ex-Im Bank, with the scrutiny of the State Department to finance some equipment that might have dual-use capability. Since 1990, however, Ex-Im Bank has not financed the sale of military equipment.

Ms. Pelosi. You are saying now since 1994 Ex-Im has had the authority to finance so-called ``dual-use items,'' that is, defense articles and services authorized, so long as they are nonlethal and primarily used for civilian use.

Mr. Harmon. That is correct.

Ms. Pelosi. In 1996, using this authority, Ex-Im authorized the sale of helicopters to the Indonesian army for its supposed role in helping develop Indonesia's rural areas. No deliveries have taken place to date for financial reasons, but it has been authorized by Ex-Im.

Can you tell us how the use of this authority was justified in this case and what role the Indonesian army will have in rural development? How do you justify that?

Mr. Harmon. This particular authorization also took place prior to when I arrived at the Bank. However, all dual-use decisions are reviewed by the State Department. We look to the State Department for their consent and comment on financing any such items.

So I think, as we did last year in the vehicles that were sold to Turkey, they very carefully reviewed it and came to the agreement that the color coding some vehicles they could identify the use for civilian purposes as opposed to military purposes.

The helicopters, back in 1996, were obviously reviewed by the State Department. It was approved, it was authorized; no action has been taken since that time. I would have to go back and look at the State Department's comments to us back in 1996 to give you any further comment on that.

Ms. Pelosi. Thank you. I am concerned about this high concentration on aircraft and perhaps military, albeit dual use. If we are increasing funding in those areas, how would we be able to increase funding in emerging areas like Latin America and Africa, if we are diverting money to these other, not original intentions of the Ex-Im Bank's charter?

Mr. Harmon. I will have to come back to you with a number, but I believe that the percentage of funding for these dual-use transactions has been very small. I cannot remember more than two dual-use cases in the past year and a half that I have been there. Maybe I have missed one or so, but I will come back with some numbers.

It is relatively modest in comparison to our overall program funding, in fact, less than one percent. As I said, these cases are very carefully reviewed by us and by the State Department. In fact, when we have questions ourselves, we pass it back to the State Department to ask about it.

[Clerk's note.--See attached for list of all dual-use cases authorized since the program's inception.]

[GRAPHIC(S) NOT AVAILABLE IN TIFF FORMAT]

Ms. Pelosi. I have so many questions, Mr. Chairman, but since I have gone down this path, I will just finish because I think my time is up.

How would you describe the utility of State Department assessments? Would you describe them as thorough and adequate?

Mr. Harmon. Yes. I feel the State Department does a very satisfactory job in reviewing these matters and responding to us. They attend every one of our board meetings; and in preparation for these meetings, they review every single matter and ask questions whenever necessary. In addition, they are constantly following up and reviewing matters with us, and we are discussing it with them.

So we have very close coordination with the State Department. I cannot remember a board meeting, and we have them every week, where they have missed. In fact, over the year and a half that I have been there, I don't believe they have missed one.

Ms. Pelosi. So many questions, so little time. We will have another round I hope.

I do want to say that most of my other questions relate to questions we have talked about before. We don't want to lose U.S. jobs, we don't want to degrade the environment, we don't want to violate people's human rights, we don't want to equip countries with so-called dual use or other military equipment to develop rural areas that they are actually using to violate the human rights of their people, be it Turkey, Indonesia or wherever.

I will submit questions to that effect for the record if we don't have another round. Thank you again, Mr. Munoz, Mr. Harmon and Mr. Grandmaison.

Mr. Callahan. Mr. Packard.

program evaluation

Mr. Packard. Thank you. I appreciate your appearing before this subcommittee.

There is a lot of money that flows through agencies like yours to a variety of countries. We see too many instances where it goes to the wrong people and to the wrong places and doesn't get to the projects and the programs it is designed to do. They are good programs, we support them, we support what you are doing. What have you done or what is your mechanism to make certain or to evaluate whether the money is reaching the places that you want it to reach and not going into the corruption, graft and other problems that we see in some of the countries that we are trying to serve?

Mr. Harmon. Who are you directing the question to, sir?

Mr. Packard. I would like to hear from the Ex-Im Bank particularly, but maybe OPIC as well.

The Ukraine is a good example. Russia is a good example of my concerns. We want to support the programs that you are sponsoring, but we want it to get to where it is doing what you want and we intend it to do.

A good example are the tractors in the Ukraine and so forth.

Mr. Harmon. I will start. Firstly, it is important to note, that the money never leaves the United States. Most people don't realize that. The money never leaves the United States; equipment leaves the United States. So what we are doing is either guaranteeing a U.S. bank, which in turn makes a loan to the foreign buyer. This loan then pays the U.S. exporter that advances the equipment. Ex-Im Bank then guarantees to the U.S. bank that the foreign buyer will pay. If the foreign buyer defaults at any point in time, we would have to make payment to the U.S. bank. Ex-Im Bank can also make a loan to a foreign buyer, which then pays the U.S. exporter for the product being shipped.

But, I cannot emphasize enough that the money never leaves the United States. It is just the product that is ordered and financed under our short, medium-, and longer-term programs.

Now, on Ukraine, there is a problem for us. Clearly, we have supported increased use of some financing for agricultural equipment for farming. We are well aware that there have been some questions. However, prior to approval of this transaction, we discussed, with the State Department the proposed use of the equipment by, quote, ``government-owned farming.''

Where we could, we have tried to encourage the people in the Ukraine, as well as other countries, to try to get the private sector involved. However, in the Ukraine, there is very little private-sector activity so access to that equipment by the private sector is very limited.

Secondly, we were able to persuade certain U.S. manufacturers in this case to create a distributor network in the Ukraine that would be privately owned. As a result, there is no so-called ``public ownership'' there.

Finally, in conjunction with the State Department we are constantly pressing these issues of greater privatization, and

private sector involvement in many areas in the Ukraine, including state-owned farming.

But, there is a problem; and we are trying to do what we can to encourage privatization. In the end, however, we have to make decisions based on the creditworthiness of the transaction, assuming it doesn't violate our environmental policy. Because if we don't support the U.S. exporter's sale, it will go forward from a foreign competitor in another country.

Mr. Munoz. OPIC has several mechanisms in place to avoid even the risk of having money being leaked out from the project into the wrong hands or someone OPIC has not already reviewed and done some due diligence.

First, we only deal with the private sector. We team up with American companies in order for them to come into these countries. Secondly, our financing projects, where we are lending money, we do project-finance. That is, we are not lending money to parties; we are lending money to a project. And we must first see and review and approve the use of funds, and all of those funds must in fact be put in the project.

We also require everyone to sign on to the Foreign Corrupt Practices Act, making sure there is no funding of money on the corruption side. We make heavy use of the U.S. agencies, including our U.S. embassy, CIA, Treasury Department and others to help in our due diligence for a specific project.

Because we deal with the private sector in these project-finance deals, there are many safeguards to avoid having money go to the wronghands, or for the wrong reasons, that we are not aware of.

Mr. Packard. I think the committee would be just as anxious that the private sector company not be bilked in their involvement either, and I don't know what you are able to do to protect the private sector. We offer our vehicle which brings the private sector into this whole process, and then to walk away and leave the burden upon them to absorb any corruption problems that result is not a good idea either.

Mr. Munoz. I agree, Congressman. The reason why, and I am sure this is true for Ex-Im and TDA, is when we put on our stamp of approval and team up with the private sector, we do not do so automatically. We do so after doing due diligence and assuring ourselves that the project and the sponsor are doing the right thing.

Mr. Packard. 2 or 3 years ago we brought this up and have discussed this almost annually. I am not sure it has gotten any better, and that is the reason for the question. And I hope you are alerted to the fact and are always aware of the fact of that scenario where we want the money to do what it is intended to do and not get sideways into someplace else.

Mr. Callahan. Mrs. Lowey.

world bank activities

Mrs. Lowey. Thank you, Mr. Chairman. I too welcome this distinguished panel. And I wanted to follow up on Mr. Packard's statement.

We are very concerned about reports in the New York Times and elsewhere that the World Bank has really faulted itself on

its lack of due diligence with regard to cronyism, political repression, et cetera, in Indonesia. I appreciate Mr. Munoz's comments on the matter, and I won't pursue that question further.

I just want you to know that, from my perspective, this is a really key issue. Although I have been a very strong supporter of investments in Russia and in developing nations--we talk about going back into Russia again, and I am not convinced that is the right thing to do now. As much as I support strengthening the economy and strengthening the lives of the people, I haven't been convinced that we have been able to deal with the rampant corruption that is there. So I would just like to mention that as a general statement.

Secondly, there have been some comments on the Caucasus. We went to Azerbaijan and Armenia and traveled in the Caucasus, and I have been concerned, frankly that even though we talk about helping small businesses, and there have been increasing activities with small businesses certainly in the Caucasus and Azerbaijan, I am not convinced that the large oil companies need our help. But they seem to get it all the time.

I remember my discussion with Conoco when we were in Russia--they get our help. And, yes, I know the arguments that if we don't do it, someone else will. But I just want to emphasize again that the small businesses that come to me in my office don't have the foggiest notion of how to get involved with most of our export agencies. And this is absolutely critical because, frankly, the Texacos and other oil companies will do well without us. They are in my district, and I support all of their good work and their exports. So I want to emphasize again what our chairman has said.

I want to emphasize to Mr. Harmon, a good friend from New York, that I would be interested in following up in conversations with you about what you see as the importance of going into Indonesia and making sure that market survives.

But how do you do that and avoid the pitfalls that the World Bank has found? Mr. Munoz has commented on that. I think this is really so key, because although we are assisting the private sector, we need to ensure that this private sector doesn't contribute to the repression in East Timor, and the corruption. Although our companies may have the transparency we require, it is very difficult to ensure that the Indonesian government and companies follow suit.

Perhaps you can comment on that.

indonesia

Mr. Harmon. Yes, thank you very much. I do follow Indonesia very closely. I have just recently returned from Indonesia where I visited several of our buyers as well as government officials.

We have also talked to the World Bank as well as met several times with IFC and World Bank officials on Indonesia. It is a subject of concern. We are monitoring it closely. In fact, we are sending a team there next week to look at a number of things.

One of the things we are trying to do is to push very hard to get a restructuring or rescheduling of Indonesian debt that

existed in some of the troubled private sector companies. We are seeking a fair and equitable resolution of this debt. So far, we have yet to see that progress.

Debt problems all over the developing world concern me. But, I think with the World Bank and IMF efforts, as well as our work and the work of the other export credit agencies, we have brought to bear in Indonesia that a new program may well work better in terms of treating contractors fairly. That is the first step in the local recovery program. Once you treat contractors fairly in a restructuring or rescheduling, you will find that new capital will come back into Indonesia someday.

We have carefully reviewed the pending Indonesian elections with the State Department, and we are cautiously hopeful. In fact, we asked the State Department toorganize an interagency meeting to review the Indonesia situation. At this meeting, which took place 2 or 3 weeks ago and consisted of at least 20 people, they reviewed the elections coming up in June, the spin-off of East Timor, as well as the whole business sector, and the country's overall economic situation.

Therefore, the Indonesian situation is being very closely monitored. It doesn't mean that we have solved all the problems. Ex-Im Bank has some significant exposure long term in Indonesia, which we follow very closely and are looking at.

We have not done anything for a year, but I would guess that we would gradually start to do new business in Indonesia in the months or in the year ahead, because I think they will recover in spite of those problems. But, again this situation is being very closely monitored, not only interdepartmentally in the United States government, but also by the World Bank, IMF, and IFC.

Mrs. Lowey. Thank you. Do I have time for a question on OPIC?

Mr. Callahan. You can have time for anything you want.

ENVIRONMENT COMMITMENT

Mrs. Lowey. I just want to thank you, Mr. Munoz, for your commitment to projects that have been very sensitive to the environment, and we have noticed the progress on that.

I have been interested in how you would encourage your counterparts in other countries to make the same commitment to the environment that you have. And I am also very interested in how OPIC monitors compliance with worker rights standards in the project it supports.

Mr. Munoz. Thank you.

First, because part of OPIC's mission is to make sure that we help America compete and bring development to important strategic places in the world, we want to make sure that that is done in the standard that this Congress sets out as appropriate.

I know that my friend, Jim Harmon here, has espoused harmonization as one of the priorities for Ex-Im Bank, and we are in line with that. We feel that the rest of the multilaterals----

Mrs. Lowey. Did you say the ``Harmon'ization''?

Mr. Munoz. Which means it has been Jim ``Harmon'ized''--otherwise we would not fulfill our mission to help America

compete. If we were the only ones looking out for a sensitivity to environment and no one else were, then, in fact, Americans would be at a disadvantage and we don't want that to occur. We believe, and we know that Ex-Im is in line with this, that all the agencies, multilateral public agencies, our counterparts in Germany, France, are sensitized to the same needs as development takes place.

The bottom line is that the development that needs to be taking place in many of these regions of the world, including Africa, Central America and the Caucasus, can take place on a very environmentally sound basis.

Mrs. Lowey. I pushed it, so I will wait till the next round.

Mr. Callahan. Mr. Knollenberg.

Mr. Knollenberg. Mr. Chairman, thank you very much.

Welcome gentlemen. I appreciate the job that you all are doing and the role that is played by each of the groups.

By the way, let me first of all take a moment just to welcome my colleague, Ms. Kilpatrick from Michigan, and then also Mr. Jackson from Illinois. Mr. Sabo was on this committee before, so he is a returnee. And, anyhow, welcome.

CASPIAN SEA DEVELOPMENT

I want to ask a question about report language that was included in last year's bill having to do with Caspian Sea development as it applies to pipeline projects. I don't have to read that. I am sure you are familiar with the report language.

But the managers strongly support the efforts of the Overseas Private Investment Corporation to encourage development of the Caspian oil and gas pipelines as key components of an east-west transport corridor, and it goes on. What steps has OPIC taken to live up to the language of that report at this point, or through the last few months?

Mr. Munoz. Thank you, Mr. Congressman.

OPIC has actually joined TDA and Ex-Im in putting together a working group and being responsive to the needs of the Caspian Sea development. We know that there is discussion of not only one pipeline, but multiple pipelines, and OPIC has been involved in the working group that the Administration has put together to address the needs.

Just this week, as one example, we had a meeting with Ambassador Morningstar, whose job it is to oversee this area. Morningstar brought OPIC together with the American contenders for building the pipe, and we had discussions at OPIC about what possible insurance or financing vehicles that we have in place that might be of assistance to them.

So far we have not enlisted any projects. We are waiting until the private sector has thought enough about what their needs are, and if there is no other assistance from the private sector, but only through our agency, then we would be able to be helpful.

Mr. Knollenberg. Let me jump in there and just express some concerns that others have raised about the whole idea of the Caspian oil basin being that rich, fertile resource that it was early on claimed to be. I know originally it was something like 200 billion barrels. Now they are talking about maybe 50

billion barrels. And I am just going torelate some results or some information that has come to my attention, and obviously, I am sure, to yours.

Number one, the price of oil. The price of oil obviously is not where it was. That may put a little damper on some of the enthusiasm. Number two, poor drilling results. This is information received from a German newspaper, but this is all very recent, too. It says after 9 years of feverish activity, the only oil that is being produced onshore and offshore in Azerbaijan and Kazakhstan is the oil that has already been discovered before the breakup of the Soviet Union. So these multiple pipelines might be a great idea, but maybe they are out there a way.

Adding to that you have a leading oil consortium who is cutting personnel and deferring development. Pennzoil, I have been told, has moved out of the area. I have met with a variety of people who have given me the expectancy of what could happen, but in light of that, I am wondering do these reports coming out as they are, does that change your perspective on what kind of involvement that you want to make? You have got scarce resources. How far can you go? How far do you want to go?

And, admittedly, we gave you that push last year. But I am asking you as a group, and I think, Mr. Munoz, most of this goes to your attention, what would you reflect on now after looking at some of the more recent information to come out?

PIPELINES

Mr. Munoz. Congressman, I think those are fair points and fair observations. You can be assured that because of the reasons you stated, OPIC has made no commitments on insuring or financing yet because it cannot. The private sector actually has to determine that it will put its money down, that it will make the investment, that it will build the pipelines. And once the private sector has made that decision on its own, no public influence, no money comes into play except the private sector's money, then we look at the viability of it, and if it is commercially viable, and speaking for all three of us, our agency will then be involved. Certainly OPIC has to be self-sustaining.

I can also say that we are not just waiting for the pipelines. So far we have not done anything on the pipelines other than have very private dialogue with the people involved. Based on our broader interests in the region, Azerbaijan, Armenia, Georgia, we will address the developmental needs of those countries for infrastructure and other projects. We are very much involved with that. On that front, I think we are making some progress. On the pipeline, for reasons that you have stated, no private sector interest has yet stepped up and put money on the table.

Mr. Knollenberg. I think the AOIC, I think that is what it is called----

Mr. Grandmaison. Yes.

Mr. Knollenberg. I think they have suggested that they don't need multiple pipelines; that they could use the one that they have got or expand that. That is the one that runs up to

Russia; is that right?

Mr. Munoz. Yes, sir.

Mr. Knollenberg. Would you believe that that is the case? Is that a statement that maybe could be challenged?

Mr. Munoz. I believe everything is still fluid. I believe for all the reasons you just stated there are still a lot of routes, different economics to it. I think there is still a lot depending on more exploration taking place.

Mr. Knollenberg. I appreciate your response to that, because I think that we would say that it should be kind of a go-slow approach right now, with conditions being what they are.

There is a Baku-Ceyhan feasibility study. Is that ongoing?

Mr. Munoz. Yes. Not part of OPIC.

Mr. Grandmaison. There are actually two studies, neither of which TDA was directly involved in.

Mr. Knollenberg. So TDA has no involvement in that?

Mr. Grandmaison. In those two studies themselves, we do not. What we are doing is working with those countries. Interestingly enough, perhaps the most important way we are trying to be helpful is to provide them the technical guidance, the legal and financial-type advice they need to make some of the decisions internally as to how to proceed.

We are involved in five pipelines in terms of feasibility studies. It happens we are not involved in the Baku-Ceyhan feasibility studies. There were major differences in the cost estimate between those two studies. A great deal of effort has been made to bring into accord what was most reasonable. As an example, we are working closely with BOTAS, the Turkish entity who would be a prime participant in that sort of venture.

George makes a valid point. We can't cause anything to happen, nor should we, in the private sector. It is their making profitable business decisions. What we can do and try to do is lend assistance and guidance, less so to the oil companies, quote-unquote, and far more to the companies who have a need to make some very basic investment decisions.

Mr. Knollenberg. Baku-Ceyhan was just one question, but thank you. I think you have answered that in a spirit that suggested to me that you are not going to make any commitment that goes beyond what you have mentioned, commercial viability. Sometimes it goes beyond that. It has to also be politically viable, as you well know in that area. But Ithank you all for your comments.

Mr. Harmon. The one thing I would add is that all of us believe that there will be some pipelines.

Mr. Knollenberg. Some?

Mr. Harmon. There is always a period of time when discoveries take place and everybody gets overly enthusiastic. As the price declines, it would be natural to get more conservative. But as recent as yesterday they announced that they awarded two U.S. companies much of the work on a gas pipeline.

Mr. Knollenberg. Gas?

Mr. Harmon. Gas. This is different. But by being present, the work that TDA did in organizing this conference assisted the U.S. producers or exporters in a way that they are more likely to get the business if it ever takes place. That is

really what we are there for.

Mr. Knollenberg. Thank you, gentlemen.

Mr. Callahan. I have heard the same rumor, Joe, about the disappointing initial finding of resources in the Caspian Sea, even though they pointed out that the two wells that had the most promise turned out dry. I questioned some Azeris on this, and they denied that, which naturally they would.

But we have been hearing about this potential here, and we have been hearing the need for this pipeline to transport oil out of there, and yet to the best of my knowledge, and, Joe, you seem to have confirmed that, there is not any new oil need at this point. It is speculation that there is oil there, and that the current pipelines through Russia--which we would like to see the new pipeline built if there is oil there--that the current pipelines are sufficient to handle what oil is there.

Now, section 907, you all don't have any problem now? We have corrected that to the point where you are, all three, comfortably operating that?

Mr. Munoz. That is right.

Mr. Callahan. Mr. Jackson.

Mr. Jackson. Let me first begin, Mr. Chairman, by thanking you for the very kind words at the beginning of the hearing with respect to my service on this committee. I have long wanted to serve on this committee and have the opportunity to have some impact domestically as well as internationally.

Let me also take this opportunity to thank the representatives from the administration for their testimonies today, and I look forward to working with you over the course of negotiations to help make your budgets a reality.

I don't have any prepared questions, Mr. Chairman, but I do have a couple of concerns that could lead to questions.

Sub-Saharan Africa

The only new initiative that the President spoke of in his State of the Union Address was the possibility for an enhanced partnership and trading relationship with Africa, I assume Sub-Saharan Africa, since the past Congress passed an African Growth and Opportunity Act.

The greatest barrier to Sub-Saharan African growth and opportunity is the enormous external debt that many of the Sub-Saharan nations do their very best to make interest payments on. I say it is the greatest barrier for Sub-Saharan Africa because without their governments' and their ability to make investments in their people and in their infrastructure, the end result is that they only search for economic and business opportunities wherever they can find them. I often argue that from my perspective that is the impetus behind the Africa Growth and Opportunity Act, which I voted against in the last Congress.

For example, not long from now, the President of Ghana, President Rawlings, is coming to the United States on a special mission to meet with President Clinton. There is no doubt in my mind that over the course of his visit, he will probably seek meetings with the three of you to discuss growth and opportunity, opportunities for Ghana.

Ghana, however, is laboring under $7 billion in external

debt. That is more debt that the private and public sectors earn in salaries per year for the entire country. Their entire earnings in terms of salary for an entire year doesn't equal one interest payment, not one interest payment on that debt. And so the President of Ghana comes to the United States in that context, seeking opportunities in part to export their way out of that dilemma.

I guess my question is this: If there is going to be genuine growth and opportunity for Sub-Saharan Africa, obviously the $230 billion debt that many of the poorest Nations in the world are laboring under creates an imbalance in the negotiations. Some countries where per capita earnings are only $500 per year, obviously the burden of that large external debt should not fall on some child who cannot find water or cannot eat, or whose family lacks basic health care needs as well as opportunities to become educated.

I have a map that I took off of the Internet about a week ago. In 1997, it shows enormous growth as a result of our government's investment with respect to people, with respect to the Internet, and hosting on line. You can see the only continent that is not participating in the information age is Africa, and mostly Sub-Saharan Africa; 750 million people. And if you did a World Wide Web search for Internet sites on Africa, particularly those based in Africa, very, very difficult to find. It is clear that South Africa is the networking capital of the entire continent.

My concern is this: If Ghana's debt, $7 billion, or Mozambique's debt of $10 billion ever ended up on the privateor open market and were purchased for pennies on the dollar, it is quite possible that, A, a stock owner in New York, a multinational somewhere in the world or an institution could end up owning a significant amount of a country's debt and therefore most of its vital resources, if it is indeed unable to service the debt in the future.

I am very concerned about what the administration is doing to help lift that debt burden off of Sub-Saharan African nations and what roles you guys are playing in obviously advocating or not advocating the relieving of that debt burden.

Thank you, Mr. Chairman. Thank you gentlemen.

Mr. Harmon. I will start on it. Congressman Jackson, this is a very good question. It is a concern because you are right when you say that with the size of the debt, it is very hard to recover.

In addition, when you have a country like Ghana with its debt, the IMF places a restriction on the ability of Ghana to borrow additional money to buy U.S. goods and services unless it is concessionary, which is a tough restriction on Ghana. In spite of that, we have been able to do almost $400 million in financing Ghana's purchase of U.S. equipment. As late as yesterday, we approved a transaction.

Ghana is a bit of a bright spot for us in all of Africa because of all the business we have been able to do. But, it does operate under a tough set of circumstances with the IMF agreement as well as with the amount of debt that you referred to.

It is not within Ex-Im Bank's activities to comment on this, so to speak. The Treasury Department, and clearly certain people at the Treasury Department who work the Paris Club

restructurings, live with this. We often deal with them relative to specific countries and loans that we have made, but in terms of recommending what debt forgiveness there may be or what reschedulings may take place, it is really the Treasury Department that leads the team that goes into those negotiations.

I am somewhat sympathetic personally with the statements that you made. As the committee may know, Congress mandated us to have an African advisory committee that has worked very successfully, in my judgment. It has worked so well that we are going to announce an expansion of it from five people to eight people.

This advisory group recommended that the three agencies, team together to place someone for a short period of time, 3 months, specifically over there and he just came back. He is a TDA representative who knew both the OPIC's and Ex-Im's programs well. It really was a lesson that we, Ex-Im Bank, needed to have so that we would put someone in Africa full time. This is one of my concerns about our administrative budget, because without someone there all the time, we cannot do what needs to be done in Africa in terms of the business and the support that has to be done.

So we will find a way to put people there and spend some money to help to do more trade with Africa, because of the African advisory committee and our internal task force as well as our own drive and desire to do it.

But the big question which you have raised, which is how do you arrive at debt forgiveness or even reschedulings, also falls within Treasury's area of negotiations. It is a very complicated area with a lot of people that have very strong feelings on the subject going back a long period of time.

Mr. Jackson. I accept that, and I have specific provisions in my bill that give specific instructions to the Secretary of the Treasury to pursue that. My concern is that you provide incentives for exports, and you also provide opportunities for U.S. corporations to do business in Sub-Saharan Africa. Essentially, multinationals are purchasing those countries' debt on the open market because they are trying to reduce it for pennies on the dollar. Who is then to stand between that company and their influence on local politics in any of those countries, enforcing labor laws, enforcing environmental standards--many of the values that we would like to export as well to these nations--in light of the fact that they are laboring under this enormous international obligation?

Mr. Harmon. I don't know myself how much secondary trading there is in sovereign debt of these countries, so I am not sure how much private sector buying there may be of that debt. However, Ex-Im Bank would not be involved in that. All of our financing relates to specific exports.

But, I would add only one thing, and that is we are not just in business with the larger entities there. We created a very important new effort to try to reach the smaller companies there, and I believe we have found one way in South Africa to do that, which we will be announcing in a month or so.

It is not just the larger companies that could be buying the debt. I am not aware of how it could be done or how much is being done on it, nor am I sure that a lot may be done, but you

could probably buy some of the debt at discounts. I am not sure how much can be purchased, but I am guessing that it is a possibility.

Mr. Munoz. I would just like to comment, Congressman, that as the President from Ghana comes over, and as we have heard from many of these countries, their number one priority interest is to bring about development in their countries, to create jobs and opportunities within their own countries. I am proud to say that at OPIC approximately $900 million worth of investments are taking place and creating jobs, and many of these are actually being driven by small business.

In my written testimony I give an example of how in Uganda there is a small farmer producing a natural nontoxic insecticide that is working together with a California company and a Minnesota company and making profits for all three entities, and these are small businesses.

For the most part, I think some of these countries are looking for development and job creation. Our agency only works with that aspect of bringing about private sector development.

MOZAMBIQUE

Mr. Jackson. I respect that, Mr. President, but let me just add that, for example, the country of Mozambique spends 20 percent of its export earnings on debt service, and, therefore, the country of Mozambique can't even afford to invest in its own health care or its own education system for its people. And, therefore, since the per capita earning power of a family in Mozambique is $200 a year, when will that family be able to buy a United States product? You can't buy a pair of gym shoes and a jacket for 200 bucks.

It is clear that their health care systems and education systems are lagging behind, and unless their export earnings are also being reinvested in their people, just as our earnings are being reinvested in our people--I think the President gave a speech a year ago that he wants to put a computer in every classroom and computer in every library. I would like to see other Presidents of other countries say they want to put computers in every classroom and every library, that one day we might be able to do business and help facilitate jobs and domestic growth here as well as have customers abroad who are in a position to buy that.

And I might add, Mr. Chairman, I am very concerned about this, because as I have introduced the Hope for Africa Act, which takes on some of these more fundamental problems in Sub-Saharan Africa, I have been expecting calls from the White House's Congressional Affairs Office with respect to my bill. I received none. I have expected calls from a series of agencies. I have received none.

All the calls that I have received are from National Security, and they are upset with my bill in part because I am beginning to think that once our interests, what these gentlemen represent, end up in my Sub-Saharan countries, and the families that cannot feed their children or provide their family with health care, when they begin to fight against these interests or nationalize them, then we have a national security problem because the domestic issues were not sufficiently

resolved, and then we have troop commitment in Sub-Saharan Africa.

That is what the cycle has been historically, and we have the opportunity to make a significant change in our approach, and I am going to be very sensitive to that in the course of our deliberations, and I would like you guys to play some role in helping to relieve that debt burden.

Thank you, Mr. Chairman.

Mr. Callahan. If I might respond, your map here indicates zip codes and IP paths, but if you had a similar chart for assistance, and especially for increased assistance to the areas of concern you have in Africa, and you specifically looked at the Child Survival Fund, you would see this map is quite different because we are channeling millions of dollars into Africa to eliminate some of the human suffering.

DEBT FORGIVENESS

With respect to debt forgiveness from you guys, I want to discourage your involvement in that because we don't want to get that started. If Jim Wolfensohn and the World Bank want to forgive debt, that is fine, but not in your agencies. Because once you start that, you are going to cause the demise of your agency. You ought not be advancing money to projects that are any risk anyway.

Mr. Jackson. Absolutely. We are saying the same thing. That is not the debt forgiveness that I am talking about.

Mr. Callahan. And I don't know what the administration may approach you on with respect to this year 2000 worldwide debt forgiveness, but I think you guys should recognize that your agencies are not agencies that should be considering any debt relief, because that is not the design. I don't know why some of the loans the World Bank and other agencies give to countries are even called loans. There is no way they can be repaid. They ought to go ahead and call them grants and forget about this.

Ms. Kilpatrick.

Ms. Kilpatrick. Thank you, Mr. Chairman, for your comments. One thing about being the last person is that you have the benefit from all that has been said, and I appreciate that.

I first want to commend OPIC for their negative $204 million budget authority that makes it possible to do projects here. I think that is significant, and I look forward to working with you on that.

AFRICAN DEVELOPMENT FUND

Last year OPIC led a proposal for an African development fund. What stage is it in? Where are you now, a year later?

Mr. Munoz. That was done in response to the legislation, the bipartisan legislation, that we saw coming out of Congress asking that we be more active in Sub-Saharan Africa, in particular bringing about some infrastructure development. As a result, we initiated a fund using some new procedures that are working well.

We wanted to be very transparent and very straightforward as to how we approached it. We advertised with wide media

distribution that we were taking proposals for anyone who could be able to run such a fund or funds for Sub-Saharan Africa; that we would commit up to $500 million in the total fund. That would notbe all OPIC. We would leverage some amount. We wanted the private sector as much as possible to put up that $500 million, and less so OPIC, but we would work with the private sector on that.

I am pleased to say that we received 17 good proposals. We set up an internal working committee at OPIC that is primarily driven by career employees. They, I know, are concluding their work, and I will be receiving the recommendation from that committee very shortly. It then goes to our board of directors for final approval. So I expect that by this spring we should be able to announce the response to that fund for Sub-Saharan Africa.

Ms. Kilpatrick. I have been following it closely from the 17 proposals down to the 3, and who was in the final search. I am very interested in and look forward to working with you on that.

You have an Executive Vice President. I see here Mr. Kirk Robertson. I had a chance in December to go on a congressional mission, and OPIC was very well represented. I think the businesspeople that we took along on that mission under Kirk's leadership certainly made your organization fare well, and I want you to know that as you send staff out, they represent our country. Mr. Robertson did a very fine job for you.

Mr. Munoz. Thank you.

Ms. Kilpatrick. And the TDA representative--I don't want to mispronounce your name. Say it for me.

Mr. Grandmaison. Grandmaison.

Ms. Kilpatrick. I was going to say that. That is just what I was going to say.

Again, I appreciate the work of the TDA as well. I have had your people in my office as well, and they represented the agency well.

I am concerned that, as my briefing papers state, your budget will meet only one-third of the need, whereas last year it met two-thirds. Why that difference today?

Mr. Grandmaison. Specifically about our Africa region?

Ms. Kilpatrick. Yes.

AFRICA

Mr. Grandmaison. Well, if you are successful in your business development efforts, then there should be no surprise that you then get more requests for funding. And of all of our regions, I would suggest that the African region is growing more quickly than any other.

All three of us were very pleased with Michael Newell's work on behalf of the three agencies there. Part of the success, I think, is that we actually have a better program outside of South Africa than in South Africa, to be honest with you.

Ms. Kilpatrick. And you have been there longer.

Mr. Grandmaison. Yes, but also to a great extent, the South African economy is so sophisticated that they are competitors for a lot of the things that we would like to be involved with. But when you go out and you market aggressively, whether it be

here domestically or overseas, the net result is that you get more requests. And as it happened this year, that particular region, by the end of March, all of its resources for this current fiscal year will be reserved and/or obligated.

Ms. Kilpatrick. So it is not to be looked at as negative. It is a helpful position to be in from your agency's standpoint?

Mr. Grandmaison. It is a great position to be in because what it allows you to do is be more critical, if you will, as to the projects you invest in. We begin with the belief that the job we have is not to shovel out money. It is to invest it wisely. And when you get more and better projects from a region, that is what you get.

A good example, as Congressman Jackson mentioned, is the Internet question. We had a conference in South Africa recently where we identified the 40 best telecommunications information technology projects in the 18 countries surrounding South Africa, including South Africa. We brought those project sponsors as our guests to South Africa to meet with American companies to begin working with them on projects to increase their level of sophistication when it comes to IT and telecommunication projects.

From that conference we have made six investments already. So as you point out, it is a good sign that we are getting that demand.

LARGE/SMALL INVESTMENTS

Ms. Kilpatrick. Finally, the Chairman mentioned large business and small business ventures in your three agencies, in his opening remarks. What percent of your budget goes to larger as opposed to smaller ventures?

Mr. Munoz. We have a direct lending program where 100 percent of the loans are for small businesses, generally anything that is $10 million or less.

Within our portfolio, we took a screening of all of the benefactors for OPIC-supported projects, and two-thirds of the suppliers to OPIC-supported projects are small business. Of all of our 1998 projects that we did directly, 28 percent are small business--that includes if we throw in all of the big companies.

Ms. Kilpatrick. And I can use your definition, $10 million or under?

Mr. Munoz. No. The $10 million and under is for the amount of the loans. If they were asking for loans, it was less than $10 million. One hundred percent of those who have asked for that are small business.

Ms. Kilpatrick. And that is $10 million and under?

Mr. Munoz. Yes, sir.

Mr. Harmon. In the case of Ex-Im Bank, I will start with the positive and then the negative. The positive is that 80 percent of all our transactions are with small businesses; 80 percent. The negative is that it equals only 20 percent of our budget. This is because some of the large transactions involve major plants and equipment that are obviously done with large companies. Therefore, it will be very difficult to bring the dollar figure amount comparable to the amount of the larger

projects that we finance.

Ms. Kilpatrick. That is understandable because they are large versus small ventures.

Mr. Harmon. We are growing in our small business efforts. But, I will be much happier when it goes beyond where we are since we have more room to improve.

Ms. Kilpatrick. Mr. Harmon, he and I did have a chance to meet. I have a constituent who has a plant in Namibia taking General Motors trucks. I have a lot of those businesses who want to do maybe not that large, but other kinds of things involved in that kind of production.

Mr. Harmon. It is a good plant. I visited it, and they did a good job. I hope he is going to do something else. As you may know, we talked about it, he is a very imaginative entrepreneur who, my guess, will be very successful there.

We are trying to grow the business there, but we haven't done as much as we can. That is why we really need to have someone on the ground covering those countries every day.

Ms. Kilpatrick. And that is what the Congressman and I are here for. Thank you very much. Appreciate your assistance.

HURRICANE MITCH

Mr. Callahan. I want to ask a couple of questions. We don't need long answers. But OPIC, with respect to Honduras and the other countries, the victims of Hurricane Mitch, I don't know why OMB has not submitted to us a request for additional assistance. The First Lady has been down there, and they talk about how horrible it is. The other agencies have been down there, and OMB has not requested a cent, and I cannot understand why not.

But I do see that OMB, in the absence of a formal request, the staff was recently informed that OPIC would require in excess of $2 million for the Central American reconstruction. I don't quite understand OPIC's guarantee of reconstruction for governmental projects. Just briefly tell me.

Mr. Munoz. Yes, sir, any additional dollars requested would be for our administrative budget to carry out more activities and outreach. We would do no government financed infrastructure projects. We would work with the private sector that would want to do things. Take, for example, the banana plantations that were wiped out in Honduras and Guatemala. They are American companies, and they are talking to us about what can we do to help them redo the plantation and do it on an environmentally safe basis and upgrade their standards as long as they do that.

So OPIC's additional dollar request would not be to actually make those loans, and, of course, we don't do any grants. It would be to make sure we have sufficient staff attention to the demand that would be created for those countries.

Mr. Callahan. Well, for the committee's benefit we haven't received any request from the administration for any assistance to Central America because of Hurricane Mitch, although there has been a lot of talk about it, a lot of hyperbole about it. I think the President is planning on going back down there, and I think the First Lady is going back again after the Mexico visit by the President.

They have given us indication, as I expressed earlier, that they are going to request a supplemental advance payment for Jordan in deference to the King, although nothing has come forward in the form of an official request. I was of the impression last weekend that they were going to request it this week. Didn't come, as far as I know.

But I am really disappointed that our efforts in Central America are not getting started, and I think the administration should come forward and at least request some partial monies, which, it is my understanding, they are going to ask for about $900 million. But if they know they are going to need $900 million, why don't they come forward and ask for $250 million in an emergency supplemental now and get started on it? I don't understand that.

But I am sure they have their reasons, but they have not yet seen fit to contact me. Maybe Mr. Gilman can enlighten us on that before it is over with. I just want to warn you that we are probably going to have a bill which they have requested that the Jordanian aid, in deference to the King, be handled, which is fine with me if that is what they want to do. But I don't know why they wouldn't send the request for assistance to Central America at the same time. Why give us two bills? And we are going to have to offset for all of this stuff anyway. To let you know that we are probably going to have some bill that at least requests aid for Jordan, and that I am insisting to our leadership here in the House that if that is the case, that we include the assistance for Central America as well.

I noticed that there was some reprogramming. I had a question in here someplace on reprogramming, the extra TDA money, $6 million that was reprogrammed to give you $6 million additional authority.

Mr. Grandmaison. The transfer?

Mr. Callahan. Yes, the transfer.

TRANSFER AUTHORITY

Mr. Grandmaison. The money has come recently from three sources. The Freedom Support money has been as high as $17 million, where this year we anticipate receiving 6 million, ``this year'' meaning fiscal year 1999. I don't want to suggest that that is a complaint on my part, the fact is that we are a market-driven agency. If we need more, we would go to the State Department and make our case and explain how we would invest it, and they would try to be supportive.

In addition to that, we have received money from the SEED program for the South Balkan Development Initiative. That ends in fiscal year 1999, so in the budget year we are talking about, we don't anticipate receiving any transfer money in that area.

And the last one is Bosnia, and once again, thatcommitted transfer money ends this current fiscal year, so in fiscal year 2000, there may be no commitment and no overall discussion whether any additional funds will be transferred to us.

So that the budget that you have, and the recommended level is 48----

Mr. Callahan. We are going to appropriate a designated amount of money. We do that with good deliberations. Now, if

USAID or someone else is going to start transferring additional authority or additional monies to your agency, we would feel a little violated by that.

I will get back with you on that, but we received notification of it, but I won't interfere with operations of the State Department. But at the same time, if USAID or some other agency tells us that they need these billions of dollars, and we give it to them, and you tell us that we need these billions of dollars, and we give it to you, we give it to you and then suddenly they say, we don't need this anymore, they are the appropriators. And we want to be flexible, we want to work with the administration, but we think you ought to operate within the jurisdiction of the monies we gave you.

Mr. Grandmaison. I can't disagree with that, Mr. Chairman, and I can assure you that there is nothing as frustrating as trying to get any money from the AID.

Mr. Callahan. I am sure that USAID would say that there is nothing as frustrating as getting money from this committee.

Mrs. Pelosi I am going to try to wind this thing up in time. These people have to have a lunch at the appropriate hour.

Ms. Pelosi. I know they don't like to eat before the stock market closes. The 1 o'clock lunch is a great thing.

Mr. Chairman, unless USAID wants something for the Callahan Child Survival Fund, then in that case they have a better case. I have a number of questions, and I am trying to put them in categories because I am heeding the admonition of my Chairman, but I also want to make some acknowledgments of what our two new colleagues have said today. I am so glad you are here, our fresh recruits, because on this issue of Africa, you said that is why we are here----

Ms. Kilpatrick. Not just why we are here.

Ms. Pelosi. But in relation to one question, your brief is the whole world, but we have certain concerns about areas that have not received what we think is what the American people would like us to do to help alleviate poverty, create markets for our products, promote our values, all in the interest of international security.

And so I am delighted that you are here to ask questions about how some of these initiatives that many of us have been pushing are working, and so it is, as I said, music to my ears to hear this focus. The Chairman, one of his special focuses has been Latin America, and that is important to our country, too. The Southern Hemisphere, in my view, is by and large bearing the economic brunt of the boom that is going on in the world and not sharing in the benefits. When you talk about Hurricane Mitch, we can talk about debt forgiveness, too, because in trying to dig out of the debt, there was a catastrophe before the natural disaster.

These are some issues that while, rightfully so, our witnesses testified are not their responsibility, however we would hope that nothing that we do loses American jobs, degrades the environment, harms the human rights and workers' rights of people in those countries, or contributes to the exploitation of the people in the region by relocation, again, not honoring their workers' rights or the air they breathe or the water they drink. These things are all connected. Someplace

in the administration, such as when Secretary Rubin comes in, I am sure we will have a fuller discussion about it.

IMF

I do want to get back to this labor rights point in some specific ways. Again, I will throw into that the IMF as well. In here we talk about the IMF and multilateral development banks and export finance and bilateral assistance, and we would hope that there would be some coordination so that at the end of the day we are helping to alleviate poverty not only for the well-being of those people, but also because it is in our national interest.

INVESTMENT FUNDS

In terms of OPIC, for example, over the past several years, OPIC has guaranteed 2 billion in 26 privately run investment funds. These funds pay fees and a risk premium. Their rules of operation and investment are particularly unknown to Congress. What assurances can you give us that these private investment operations finance projects in a manner that is consistent with OPIC's policies on the environment and labor rights?

Mr. Munoz. Thank you very much, Congresswoman. That gives me an opportunity to state for this committee that we put procedures in place so that we are very consistent within OPIC that whether it is funds or our insurance or project financing that is taking place, that, in fact, they comply with all of the worker rights requirements, the human rights requirements, as well as the statutory requirements on the environment.

We wanted to make sure that all those are taking place. We have established procedures to ensure that. We are working with some funds that have contractual arrangements that were done in the past that had not specified full compliance with some elements of that. But today, because we are working with those funds on a day-to-day basis, we are confident that we are able to make sure that they do, and certainly any new funds that come forward would have those as a requirement.

Ms. Pelosi. Could you give us any example of a country where OPIC shut down a relationship due to labor rights violations?

Mr. Munoz. Yes, in Korea, for example. Now, we are reopened in Korea now, but before we did that, we analyzed all of the progress that they have made, and so after assuring ourselves that the right steps were being done----

Ms. Pelosi. That was my next question, about Korea, to the extent that the government's commitment was being honored.

And do you have an assessment of labor rights in Indonesia?

Mr. Munoz. Some of these countries are difficult. Right now in Indonesia, in terms of labor rights, we follow the USTR and their determinations.

Ms. Pelosi. That is another off the USTR.

Mr. Munoz. They have given Indonesia GSP status. If we are assisting a private sector project, we make sure that the project adheres to the highest international----

Ms. Pelosi. So I understand what your standard is. We may not agree with it, but in other words you are following the

GSP. Let me just----

Mr. Callahan. Let me just let Mr. Knollenberg ask his question. Then you can have a third run.

Ms. Pelosi. Okay.

Mr. Knollenberg. I will be very brief. All I wanted to do is to thank the gentlemen again from OPIC, Ex-Im and TDA. If anybody can figure all that out, I am not aware of it. But I thank you all for your appearance and your responses.

I do want to submit some questions for the record relating primarily to Michigan and some of your successes there. I would like your evaluations of that. Thank you, Mr. Chairman.

Ms. Pelosi. Mr. Knollenberg, if I may just ask you a question. You asked about the Caucasus before. Did the point come up that----

Mr. Knollenberg. Am I on the spot here?

Ms. Pelosi. Did you raise impact of the price of oil on our attitudes there? In other words, I had heard the President say because the price of oil has gone down, the leverage that we may have had to try to bring Armenia and Azerbaijan together, has diminished. Did we talk about the price of oil's impact on policy here?

Mr. Callahan. We talked about it.

Ms. Pelosi. We did. I will just see the record on that. Thank you, Mr. Knollenberg.

Mr. Callahan. Mr. Jackson, any more questions?

Mr. Jackson. Mr. Chairman, I don't have any more questions at this time.

Mr. Callahan. Ms. Kilpatrick.

Ms. Kilpatrick. I reserve the right to submit questions.

Mr. Callahan. Yes. That is welcome at any time to submit questions. We will give you a couple of days to submit questions, and we would ask for your immediate response there.

Ms. Pelosi for the third round.

Ms. Pelosi. We have three witnesses at once in this little bit of time.

China

Following up on my line of questioning before in terms of OPIC, human rights and workers rights, I understand that Secretary Albright is going to Beijing on March 1 and 2 and that China may be interested in getting OPIC restored when Zhu Rongji comes to Washington in April. Is the administration considering issuing a Presidential waiver to allow OPIC assistance in China? Isn't OPIC still constrained from operating in China by section 231 of the Foreign Assistance Act prohibiting OPIC assistance to countries not respecting workers' rights?

Mr. Munoz. That is correct, Congresswoman, and we have not received any indication. We know that China would like to have OPIC open and available in China, but we have received no indication that that is being promoted by the Administration.

If I could supplement my last answer when you asked about Indonesia, not only do we make sure that they adhere to international workers' rights, specific contract language is included by OPIC for the project so that the project actually goes beyond even the workers rights that may be recognized

nationally in that country or the like. We would be happy to share the kinds of language that we provide in those contracts, but we believe that the projects themselves live up to the highest standards.

Ms. Pelosi. Thank you.

Environment

Mr. Harmon knows the importance I place on the intersection of commerce and the environment. We talked a great deal in the hearings and in our office about that. I want to commend at this time President Munoz for his work in strengthening environmental protection and express my belief that OPIC is still not going far enough.

I am concerned that OPIC's board of directors regularly approves projects prior to completion of OPIC's environmental assessment and prior to the agency receiving comments from NGOs. The public may not provide comments at board meetings and is not allowed to attend project discussions and meetings and to review the minutes of the board discussion of specific projects.

I want to encourage the track that you are on. I know that you are making progress. I want to encourage the development of the ideas, mechanisms to allow the public access to the board of directors meetings on project specific concerns before the vote. Would you consider making available to the interested public the minutes to board meetings?

Mr. Munoz. We would take it under advisement, as long as we are in compliance with the rights from the business confidentiality aspect.

Vietnam

Ms. Pelosi. Do you know anything about progress in terms of respect for basic workers' rights in Vietnam over the past year? Do you have plans?

Mr. Munoz. We have taken an extensive review of the workers' rights in Vietnam. We believe that they have taken steps forward to comply with the internationally recognized worker rights. So we are open in that country.

Ms. Pelosi. Mr. Grandmaison, I don't want you to feel neglected. It is just that I don't have any problems with what you are doing. I would, heeding the Chairman's admonition, submit most of my other questions for the record.

Hurricane Mitch

Following up, though, on what the Chairman asked about Hurricane Mitch, OPIC has initiated a $200 million facility for Central America through a U.S. bank.

Mr. Munoz. Yes, Congresswoman

Ms. Pelosi. Can you explain why OPIC is required to use a financial institution?

Mr. Munoz. OPIC wanted to do exactly what Chairman Callahan said--act right now. We need to hit the ground running. Citibank is an organization that has 1,100 personnel serving the Caribbean and Central America region. They have been there

for literally generations. They are more familiar with the abilities of the private sector to generate regrowth, so we teamed up with them because of their strength in the region, their knowledge of the region. But before we did that, we did a due diligence review of what kind of projects they would do. They agreed to adhere to the same standards that we would require for all the projects that are there, and we are basically a partnership, we are teamed up with them. We are not leaving them alone in the region.

We think they will hit the ground running. We think that will produce the quickest results and leverage the private sector money.

Ms. Pelosi. That is interesting. I happen to think, having visited disasters even before I was in Congress, that one of the things we have to do is encourage the private sector to have market opportunities there. Debt relief, of course, is also part of the economic health of those countries, but to the extent that, for example, U.S. companies are going back to rebuild their own facilities, I would hope that we are applying still the same workers' rights.

I have met with the banana workers in Guatemala, not on a visit with you, Mr. Chairman, but on another separate visit. I know some of the problems there. I hope in our assistance to these countries and their rebuilding, you mentioned environmental sensitivity, but that we would have workers' rights considered in there, too.

I am going to say this honestly, my final question, and I will submit the rest for the record. Mr. Harmon, in keeping with the thrust that I have had on workers' rights and human rights and environment, I again wanted to ask about the Dahbol project in India. This project raised a number of concerns about human rights abuses associated with projects receiving U.S. taxpayers' funds. Another region where this is likely to be a growing issue is the Caucasus.

Trans-Caspian Pipeline

I have a little different question than was asked before. In light of the oil companies' interest in the Trans-Caspian pipeline, it is my understanding that in April of last year, Ex-Im approved a $96 million credit for the sale of gas compression equipment in Turkmenistan. Then in October another 10 million from Ex-Im, OPIC, TDA and USAID was approved. The Government of Turkmenistan is one of the most repressive governments in the world. There is no political opposition, no freedom of assembly, no opportunity for public debate. How does Ex-Im intend to address human rights abuses in Turkmenistan and other countries in the region in light of Ambassador Morningstar's promise of U.S. financing for what is expected to be a $2 billion Trans-Caspian pipeline?

Mr. Harmon. I always worry about the last question. But before I answer that, if I may have the floor for a minute to assure the Chairman that we are very concerned about debt forgiveness. We do not offer that. It is essential to us that we manage our own portfolio, including debt.

Mr. Callahan. But a lot of times in Washington, strange things can begin to happen, and strange things are beginning to

take place about the year 2000 the debt forgiveness year. I just didn't want you all to dragged into something that would not set well with this committee.

Mr. Harmon. I understand. I just wanted to go on record having said how strongly I feel about that subject.

Mr. Callahan. You tell OMB that, and you tell the Treasury Department, too.

Mr. Harmon. I do, often.

Congresswoman, I have visited Turkmenistan myself. We have had numbers of conversations with them. I am familiar with the transactions. I believe the transactions are creditworthy.

As you and I have talked many times before, the whole question of human rights is a foreign policy question so we turn to the State Department for handling. We have enough difficulty trying to determine what is creditworthy and environmentally beneficial. We think they do a very good job in terms of communicating with us when they think it is necessary for us to do it. We do follow it, as you referred to in the India Dahbol project but we rely upon the State Department to act on such matters. It is neither part of our charter or within our mission to evaluate them, but that doesn't mean I am not very concerned about it.

Ms. Pelosi. I understand. You are telling me what the process is, and that is the answer to the question. You have your charge, and it spells out certain considerations in terms of the creditworthiness and the environment, not human rights. You depend on the State Department for that, and that is the issue.

I do want to raise this issue, because I think it is one that obviously we will have to talk to the State Department about, but it relates to what you do.

Again, I told the Chairman it was the last question, so I will resist every temptation that I have and thank you again for appearing.

Mr. Callahan. The purpose of this hearing today was really for them to submit their budget request to us and for us to respond accordingly, or for you all to give us justification for your request, which you did in your statements. I am sorry we had to spend so much time talking about other issues of our concern rather than the budget requests.

Your administrative cost increases are going to be difficult. We don't yet have the numbers that are going to be allocated to us as a subcommittee, so it is a little premature for us to be able to tell you what we are going to be able to do. But we certainly will look at your submissions, and we will do everything we can to comply at least partially with your request.

We thank you for coming. The meeting is adjourned.

[Questions and answers for the record follow:]

Submitted to Ex-Im Bank

Questions for the Record by Mr. Porter

overseas private investment corporation/export-import bank

Question. We have heard much about the need for ``meaningful participation'' by developing countries prior to ratification of the

climate change treaty. Disturbingly, I note the continuing growth of OPIC and Ex-Im's portfolios not only in thermal power plant projects, but also in fossil fuel extraction projects such as oil and gas--thereby compromising ``meaningful participation'' by developing countries in the short and long term in helping solve the climate change problem:

OPIC and Ex-Im Bank have agreed to release annual greenhouse gas emission reporting, but only for thermal power plants. Why do you not consider greenhouse gas emissions for other projects.

Answer. The April 2, 1998 revision to Ex-Im Bank's Environmental Procedures and Guidelines states that the Bank is committed to increasing its support for projects and products that are environmentally beneficial, including those which result in the reduction of greenhouse gases. In addition, the Bank's Environmental Procedures set forth an initiative whereby it will track the estimated amount of carbon dioxide emissions from projects it supports in the power sector and, to the extent practical, from projects in other sectors that may cause significant production of CO2.

Thermal power plants were targeted because, by their nature, plants that convert energy from carbon based fuels to heat and electricity represent the sector that constitutes the main contributors, by far, of global greenhouse gas emissions within the set of projects that Ex-Im Bank would ordinarily be requested to support. In addition to thermal plants, however, Ex-Im Bank's Engineering and Environment Division will include the reporting of greenhouse gas emissions from certain projects in other sectors, such as cement plants or certain oil field projects that flare excessive gas, which inherently produce amounts of greenhouse gases that may be significant. Projects in many industrial sectors supported by Ex-Im Bank inherently produce relatively small amounts of CO2, and Ex-Im Bank's Engineering and Environment Division determined that at this time, the tracking and reporting of the greenhouse gas emissions from these projects would not be practical in that the results would not significantly impact the management of global greenhouse gas emissions.

Question. Will there be a commitment to investment in renewable energy to help further the goals of meaningful participation in the context of the climate treaty?

Answer. To underscore our commitment to supporting renewable energy, Ex-Im Bank offers an incentive to exporters and buyers of renewable energy projects under its Environmental Exports Program. Under the Bank's Environmental Exports Program, renewable energy projects, as well as thermal power projects which produce less than 400 grams of CO2 per kilowatt hour of energy produced, receive extended repayment terms, capitalization of interest and local cost support totaling up to 15% of the U.S. contract price. Ex-Im Bank believes, moreover, that it remains the only export credit agency to have taken an initiative of this nature to encourage exports of renewable energy technology and projects.

Questions for the Record by Mr. Forbes

Question. Can you comment on the impact of the Asian financial crisis on the volume of activity at each institution? Has this crisis increased costs for US businesses and driven up the amount of assistance, advisory and financial, delivered to customers by your agency?

Answer. Short-term.

As a result of the Asia crisis, demand for short term financing support for Asia through Ex-Im Bank's export credit insurance program reached unprecedented levels. Specifically, Ex-Im Bank's short-term insurance support for U.S. exports to Korea increased from approximately $30 million during FY'97 to just over $1 billion during FY'98. During 1998, Ex-Im Bank received more than 2,400 applications for short-term insurance on U.S. exports to Korea, compared to less than 100 applications during 1997.

The number of inquiries from U.S. businesses regarding the availability of Ex-Im Bank support for exports to Asia also spiked dramatically in the Insurance Division and in Business Development. The demand for this type of information increased so much that Ex-Im Bank developed specific fact sheets and created an Asia Hotline to handle the volume. In addition, the programs created by Ex-Im Bank for specific Asian markets were designed to accommodate a high volume of demand for Bank financing in an expeditious manner. The cost associated with the creation of these tools were absorbed by Ex-Im Bank (mainly in the form of additional staff hours) entirely and were not passed on to the customers.

medium and long-term financing

The Asian currency crisis and resulting recession in Asia have served to increase Ex-Im Bank activity for term financing in certain markets while decreasing activity in other primary Ex-Im Bank markets. For instance, Ex-Im Bank activity in Korea prior to December 1997 (when the Asian currency crisis engulfed the Korean won) had been generally limited to the financing of aircraft as commercial lenders were generally willing to provide term financing for U.S. exports of other big ticket items. Since December 1997, however, Korean buyers have generally been unable to attract funding from commercial sources and therefore have turned to Ex-Im Bank funding.

The situation is the reverse for other major Ex-Im Bank markets such as Thailand and Indonesia where the economic recession is much more severe and signs of recovery have not yet materialized. In these cases, businesses are struggling to stay afloat and are refraining from embarking on expansion of manufacturing capacity. Businesses therefore have less need for exports of U.S. capital equipment. As a result, demand for Ex-Im Bank financing in such markets has declined considerably and is not expected to recover until the economies recover.

The crisis increased the cost of doing business in Asia for U.S. companies because Ex-Im Bank charges an exposure fee or risk premium in order to provide risk cover. Moreover, private sector banks probably increased their pricing in response to the higher risks involved. However, U.S. exporters presumably passed these additional costs on to their foreign buyers. Further, the additional costs incurred also were considered to be necessary in making the difference to many U.S. companies that would not have been able to conclude these sales without Ex-Im Bank support.

Question. What plans does your agencies have for Russia? Have you written off any or all activities with Russia due to its insolvency and rampant crime? What might your agency do to assist US companies to help lift Russia out of its quagmire? Or, should we force Russia to fend for itself?

Answer. Ex-Im Bank has not publicly changed its policy in Russia since the August 1998 financial crisis. The Bank's stated cover policy is: open for short-, medium- and long-term public sector transactions and for short- and medium-term private sector transactions. In the

aftermath of the financial crisis, however, Ex-Im Bank has not been prepared to consider new sovereign risk or other unsecured exposure (and has not, so far, approved new transactions of any kind). This policy is consistent with that of the other major export credit agencies and is unlikely to change until Russia establishes an economic program acceptable to the IMF and G-7, and the economic outlook improves sufficiently to warrant considering new business on an unsecured basis. The Bank continues to honor existing commitments to U.S. exporters by permitting disbursements to continue for transactions which had already been approved and documented prior to the crisis.

Ex-Im Bank has $2.4 billion in exposure in Russia: $1.2 billion in outstanding (disbursements less repayments), $739 million is yet to be disbursed on approved transactions, and $455 million has been authorized but not yet made operative. Almost $1.5 billion in exposure is secured by oil and diamond export sales, or under asset-based aircraft financing. Virtually all exposure is under the medium- and long-term guarantee programs.

Delinquencies and claims paid to date have been limited to the commercial banking sector. Two claims totaling $12 million were paid as a result of one bank's failure to pay the guaranteed lenders. Efforts to collect from the bank are underway and prospects for recovery appear encouraging. Another bank made a partial payment on a November 1998 installment, and is likely to seek rescheduling of the balance outstanding. A third bank was late but ultimately paid a December 1999 installment. The total outstanding debt involving these three banks amounts to $24 million. The remaining $12 million in debt owned directly by or guaranteed by five other Russian commercial banks is current.

Prospects for Renewing Ex-Im Bank Activity: Once economic conditions warrant, Ex-Im Bank could again move forward with sovereign risk lending. The prospects with regard to the commercial banking sector are less clear and consequently, it will take longer to determine which of the surveying banks in Russia represent acceptable credit risk. The demand for Ex-Im Bank financing in the energy sector could increase in the future, as a number of Russian oil companies have inquired concerning financing under the Oil and Gas Framework Agreement. The actual timing and need for Ex-Im Bank financing will depend on a recovery of the demand for and price of crude oil. Inquiries have been received involving other sectors as well, such as diamonds, forestry, and agricultural equipment.

Question. Could you comment on how your activities in Brazil might be impacted if the local economy and currency continue to slide downward?

Answer. As a result of the devaluation of Brazil's currency, the ``real'', U.S. products are significantly more expensive. A devaluation of 40%, approximately the current level, means an increase in the cost of U.S. products in Brazil of more than 65% from its pre-devaluation level. The direct effect is reduced Brazilian demand for U.S. products, with certain industries, such as the automotive industry, being affected more than others. However, this does not necessarily mean reduced Ex-Im Bank activity in Brazil. An argument can be made that Ex-Im Bank, as a ``lender of last resort'', may see its export financing actually increase in terms of U.S. dollar volume. Inherent In this argument is lack of availability of export financing for Brazil. Brazilian banks and the capital markets are currently not an option, and foreign financial institutions only finance the largest and best Brazilian companies. The result is a liquidity crisis, and among the

few financing alternatives are the official export credit agencies of the industrial world that may be understandably reluctant to take Brazilian risk.

Ex-Im Bank believes that if there was ever a time to be active in Brazil, it is now. Abandoning Brazil may have longer term implications on the competitiveness of U.S. exporters in the market. On the other hand, staying active in providing credit to Brazilian buyers would likely result in increasing our market share. Moreover, tightening up on our lending practices would adversely affect liquidity with negative ramifications for the rest of Latin America, mainly Argentina, Uruguay and Paraguay; Brazil's major trading partners. It also does not help global emerging markets. Ex-Im Bank believes that in the long run the benefits of staying active significantly outweigh the risks, especially given the Bank's expertise in analyzing foreign credit and political risk. The Bank will support transactions only if reasonable assurance of repayment does exist. At the same time, it is clear that continuation of the current slide in the value of the real will result in an increased number of defaults. In our view, this will be far outweighed by the improvement in our exporters' competitive capacity in the lucrative Brazilian and Latin American markets, which carries positive implications for U.S. employment and global stability. This belief is evident in Ex-Im Bank's recent decision to ``open'' for public sector financing in Brazil, which could translate into as much as $2 billion in additional U.S. exports; and Ex-Im Bank's increase in the credit limit for six highly creditworthy Brazilian banks, five of them private, to $1 billion.

Ex-Im Bank would expect to see an increase in demand for medium-term cover (1-5 year repayment terms) but the composition of that demand would likely change. Specifically, we would expect to see demand coming from the stronger Brazilian companies, particularly those with foreign currency (dollars in particular) earnings or multinationals, and Brazilian banks on behalf of their Brazilian corporate. Indications from the private sector suggest that private capacity, in terms of lenders and insurers, is quite limited in Brazil and especially for medium-term cover. Moreover, financing may be available but a very costly interest rates. Thus, Ex-Im Bank will be an available source of funding. Conversely, we would expect a downturn in activity involving small and medium-sized Brazilian buyers and U.S. exporters which have traditionally accounted for a large portion of our medium-term business. Demand for short-term cover would depend on whether the Brazilian government decides to lift the current restrictions on goods sold on terms of 360 days or less. Until such time as these restrictions are lifted, we would not expect to see any appreciable activity or demand.

Question. There is a great deal of concern in Congress right now that some countries suffering in the financial crisis are dumping cheap products in the US to escape their economic problems. What role, if any, does your agency have in causing this problem?

Answer. Ex-Im Bank does not play a role in causing foreign countries to dump their products in the U.S. market. Rather, Ex-Im Bank explicitly opposes the practice of illegal dumping and unfair subsidization by withholding financing from buyers known to have dumped or to have unfairly subsidized their products in the U.S. market.

Question. Will you curtail your export or direct investment assistance to halt such dumping of products?

Answer. Yes Ex-Im Bank policy is to withhold official export credit support from buyers that have been sanctioned by the U.S. government

for dumping their products in the United States. Exceptions to this policy are possible, but only if there are dramatic consequences created by the lack of Ex-Im Bank financing for a transaction. (For example, if the export sale were critical to the financial viability of the U.S. exporter, Ex-Im Bank management may consider extending financing. Such exceptions are expected to be extremely rare.)

Question. Is greater financing of your agencies warranted if this problem persists?

Answer. In light of current Ex-Im Bank policy to withhold financing from foreign buyers that engage in unfair trade practices such as dumping products in the U.S. market, limitations on Ex-Im Bank funding would not likely contribute to a reduction in unfair trade practices by foreign parties.

Questions for the Record by Mr. Knollenberg

Question. In the past five years, Ex-Im activities have resulted in $82.2 million of exports in my District alone. What does that do for job creation in MI-11? How does that compare to figures that would exist if we did not have an independent agency such as Ex-Im assisting American companies to compete against the aggressive financing practices of major foreign governments?

Answer. It is estimated that the $82.2 million of exports supported by Ex-Im Bank financing created/sustained approximately 1,069 U.S. jobs. The basic premise of Ex-Im Bank financing is that it is a supplement to, and not a replacement for, private sector financing. These are exports that most likely not would have gone forward because of lack of financing. As a result, the companies that received these orders would have found it necessary to find other orders for their employees to work on or reduce employment.

Question. Ex-Im is requesting $839 for its FY 2000 program budget--an increase of $74 million over last year. To what do you attribute this increase? How much financing support will your FY 2000 budget request allow?

Answer. The increase in program budget in FY 2000 will help support an expected increase in demand for U.S. in Asia/Africa and Latin America. At this time, Ex-Im Bank financing in FY 2000 is projected to increase almost 70% over FY 1999. Also, additional program budget is needed to help support exports to higher risk markets.

Question. What amount of exports will it support? How many U.S. jobs does that represent?

Answer. In total, $839 million in program budget is expected to provide $16.8 billion in Ex-Im Bank financing, which will support approximately $20 billion in exports. This will support an estimated 320 thousand U.S. jobs.

Questions for the Record Submitted by Ms. Pelosi

environment

Question. I am pleased to note that Ex-Im has agreed to the release of Environmental Impact Statements, but concerned to find out that you are providing no minimum time period for disclosure before you commit to a project. Even OPIC has agreed to a 60-day review period, which as President Munoz knows I think is insufficient. Will Ex-Im agree to implementing a minimum time period for release of environmental impact statements before you commit to a project?

Answer. The April 1998 revision to Ex-Im Bank's Environmental

Procedures and Guidelines initiated a procedure whereby Environmental Assessments of final applications for those projects categorized as having potentially significant environmental effects, will be made available to interested parties. Ex-Im Bank is the only major export credit agency that has published environmental procedures and guidelines. The decision to make environmental assessments of certain projects available to interested parties was a milestone in that for the first time, participants of projects seeking Ex-Im Bank support would now have to provide environmental information about the project not only to Ex-Im Bank's Engineering and Environment Division, but also to interested parties in the public sector, including environmental groups and NGOs.

In its role as an Export Credit Agency, Ex-Im Bank remains sensitive to the competitive needs of exporters of U.S. goods and services, notwithstanding the Bank's commitment to the environment. In light of the fact that competing ECAs do not undertake environmental evaluations of applications for projects they are asked to support, much less require that an environmental assessment be prepared and then made available to interested parties, Ex-Im Bank concluded that at that time, any requirement that the Environmental Assessment be made available for a fixed period pending final action by the Bank, would be unduly detrimental to the competitiveness of U.S. exporters. We note, however, that in fact, transactions for which environmental assessments are required by Ex-Im Bank generally require a period of at least two months to review, since these projects tend to be inherently more complex than simple product sale type transactions. Hence, the de facto period during which the environmental assessments submitted to Ex-Im Bank are made available for comment by interested parties should average greater than 60 days.

Question. Similary, I am disappointed that Ex-Im has not adopted categorical prohibitions on environmentally destructive projects, as OPIC has. Why has Ex-Im refused to implement categorical prohibitions on destructive projects?

Answer. Ex-Im Bank's Environmental Procedures and Guidelines state that commercial logging in primary tropical forests will not be supported. Although Ex-Im Bank has not adopted other ``categorical prohibitions'' for various types of projects, it will not provide financial support for a project that, upon review by the Engineering and Environment Division, is determined to be ``environmentally destructive.'' For example, while some hydroelectric projects could cause irreversible damage to the environment, others, which address measures to adequately mitigate any adverse environmental effects are viewed by Ex-Im Bank as having a potential beneficial environmental effect.

Question. I have heard reports that Ex-Im may be being pressured to loosen its standards applied to the Illisu Dam in Turkey. Is that the case? Will Ex-Im agree to standards lower than those in place now? Will Ex-Im support the Ilisu Dam if it is found to disrupt natural ecosystems or the livelihoods of local inhabitants?

Answer. Any ``pressure'' from exporters or project participants to relax the environmental review standards associated with the Ilisu project is being categorically ignored by Ex-Im Bank's Engineering and Environment Division. In 1998, the Swiss government realized that the issue associated with the proposed resettlement of 12,000 inhabitants around the region of the proposed reservoir would be better addressed if all participating ECAs agreed to a common approach. Ex-Im Bank subsequently seized upon the opportunity to broaden the scope of

discussion among the ECAs to other elements of the project that raised serious environmental concerns. Recognizing the opportunity afforded Ex-Im Bank to further its objective of achieving common environmental guidelines among all Export Credit Agencies, the Bank, through its Engineering and Environment Division, have assumed a leadership role among the ECAs in the environmental review of the project.

Following a review of the environmental information available to date on the proposed Ilisu project, Ex-Im Bank, on January 21, 1999, issued a preliminary commitment covering U.S. goods and services for the project that was heavily conditioned with numerous information requirements addressing various environmental aspects of the project, in areas ranging from the project's socioeconomic impact (especially relating to resettlement), to the quality of the water both downstream of the project and within its proposed reservoir. Ex-Im Bank is also requiring critical information regarding measures to be taken to mitigate the potential adverse environmental effects of the project. To date, Ex-Im Bank appears to have convinced other ECAs to join in a united front with respect to the resolution of these identified environmental concerns. Any recommendation for final approval of support for the project will be predicated on the project meeting the requirements set forth by Ex-Im Bank, requirements that are consistentwith its environmental objectives and guidelines. Furthermore, consistent with its revised Environmental Procedures and Guidelines, the project's environmental assessment will be made available to interested parties for their review and comment when and if an applicant for a final commitment, complete with the information required as a condition to its Preliminary Commitment, is received by Ex-Im Bank. The Engineering and Environment Division has expressed assurance that any application for a final commitment will be the subject of a complete and thorough environmental evaluation, consistent with that undertaken for hydroelectric projects worldwide.

ex-im bank--china

Question. What was the level of funding for Ex-Im Bank activities in China in 1998 and how does that compare to 1997? What are your plans for China activities in 1999?

Answer. Ex-Im Bank is open under all its programs in China. In fiscal years 1997 and 1998, Ex-Im Bank provided financing support in the form of loans and guarantees for approximately $1.5 billion in U.S. exports to China. For Fiscal year 1999, it is projected that the Bank's financing will support $1.0 to 1.5 billion in U.S. exports to China. However, this number may be affected by changing market conditions, as Ex-Im Bank is requested to match officially supported competitive offers.

Question. Is Ex-Im reconsidering applications from Caterpillar and others for participation in the Three Gorges Dam project? If so, what would be the process, given the earlier NSC review that recommended against funding the dam?

Answer: Ex-Im Bank decided in May 1996 not to issue letters of interest related to the Three Gorges dam project in China. Since that time the Bank periodically has received additional environmental information relating to the Three Gorges dam project. To date, this additional data has been insufficient in addressing the information requested.

Question. Do you have any plans to visit China this year? If you plan to go, will you coordinate your visit with others in the Administration so that your meetings with Chinese government officials reflect the full range of U.S. government's concerns with China,

including human rights, good governance, corruption, etc?

Answer. While specific plans for visiting China this year have not been finalized, in recent years there have been one or more business trips to China led by various Ex-Im Bank divisions. All trips to China are closely coordinated with other departments of the government, including the State Department as regards country and cable clearances. When appropriate to an Ex-Im Bank delegation and mission, other U.S. government concerns can be conveyed to our Chinese counterparts.

ex-im bank--enron india project

Question. Human Rights Watch has just released a comprehensive report investigating Enron Corporation's possible complicity in serious human rights abuses associated with the Dabhol project in India. Ex-Im participated in the financing of this project. At any point, did Ex-Im raise the issue of human rights with Enron? Was Ex-Im aware that the company was paying the costs of police who subsequently committed human rights violation? Was Ex-Im aware that contractors to the company were alleged to have attacked, harassed and threatened demonstrators against the project? Does Ex-Im have a policy in conjunction with the State Department or otherwise to ensure that human rights are monitored during the financial package's life span? Are there any steps being taken to implement such a policy?

Answer. In order to address the above-referenced questions, background information should be provided regarding certain legislation which relates to human rights and other foreign policy consideration and its impact upon Ex-Im Bank. Since passage of the 1978 amendments to the Export-Import Bank Act of 1945, as amended, Ex-Im Bank can deny its financing for human rights reasons only if the President determines that such a denial would be in the national interest (this legislation is also referred to as the Chafee Amendment). The Chafee Amendment, which was amended in 1997, states that Ex-Im Bank should not deny applications for non-financial or non-commercial reasons (i.e., for policy reasons) unless the President of the United States determines that the denial is in the national interest. Interest areas on which a particular transaction or a given country may receive a denial include international terrorism, nuclear proliferation, environmental protection and human rights, including child labor.

Ex-Im Bank authorized financing for the Dabhol project in September 1994. Ex-Im Bank followed the standard procedures regarding human rights and other foreign policy considerations in processing the subject transaction. Such procedures were developed by Ex-Im Bank with the State Department, particularly with the Bureau of Human Rights and Humanitarian Affairs, to ensure a smooth flow of information to Ex-Im Bank regarding human rights. Transactions over $10 million are generally subject to specific human rights review by the State Department. Such a review by the State Department would determine if a transaction may give rise to significant human rights concerns. These procedures undertaken by the State Department would examine both the general status of human rights and the effect of exports on human rights in each country. Such a review is completed by the State Department prior to Ex-Im Bank's consideration of the transaction. These procedures were followed in the processing of the Dabhol transaction.

As described above, Ex-Im Bank does not conduct the human rights review--it is the State Department which undertakes the review due to such foreign policy considerations as well as the Department's expertise in these matters. Any specific issues related to such an examination should be referred to the appropriate official at the State

Department.

dual-use exports

Background

Since 1994, Ex-Im Bank has had the authority to finance so called dual use items, that is defense articles and services are authorized as long as they are nonlethal and primarily used for civilian use. In 1996, using this authority Ex-Im authorized the sale of helicopters to the Indonesian Army for its supposed role in helping to develop Indonesia's rural areas.

No deliveries have taken place to date for financial reasons, yet this sale has been authorized by Ex-Im Bank.

Question. Can you tell us how the use of this authority was justified in this case, and what role the Indonesian Army will have in rural development?

Answer. In early 1996, Ex-Im Bank authorized support for the sale of 21 refurbished ``Bell--205'' helicopters to the Indonesia's Ministry of Defense. The Engineering and Environment Division conducted a thorough evaluation of the transaction, focusing on the proposed uses of the helicopters, and it determined that, in accordance with P.L. 103-428, the items qualified as nonlethal defense items, the primary use of which would be for civilian purposes.

In the course of conducting its evaluation, the Engineering and Environment Division contacted the U.S. Embassy in Indonesia, which reported that the Indonesian Army utilizes helicopters of this type in support of ``territorial development'' with activities in this area constituting approximately 70% of the usage of these helicopters. Other information received indicated that the helicopters would be used for activities such as the transport of food, water and emergency medical supplies to remote areas, the combating of forest fires, mosquito control, the conducting of search and rescue missions, and maritime pollution surveillance.

Based on the information received and gathered by the Engineering and Environment Division, including the information about the end user of the helicopters from the U.S. Embassy in Indonesia, Ex-Im Bank determined that there was clear and convincing evidence that expected usage of the proposed helicopters would indeed be primarily civilian in nature. Certificates were obtained from the Indonesian Ministry of Defense and from the Indonesian Army veryfing that the proposed usage of the helicopters would be ``primarily civilian'' in nature. Ex-Im Bank's Engineering and Environment Division subsequently determined that the transaction was eligible for financial support, in accordance with the exceptions to the law prohibiting sales of Defense Articles, afforded by P.L. 103-428, otherwise referred to as Ex-Im Bank's ``Dual Use'' policy.

budget increase

Question. The request for an additional $74 million in subsidy appropriations and an additional $7 million in operating expenses is one of the few areas of increase in the entire International Budget function. The limited material available to the Committee to date does not illustrate how such an increase will be used. What are your specific priorities for your program budget increase? How much will go to increase financing in the emerging areas of new business such as Africa and Latin America.

Answer. The increase in program budget will be used to finance increased financing activity in Asia/Africa and Latin America. Ex-Im Bank financing in FY 2000 is projected to increase to almost 70% over FY 1999 in these regions. Financing in Asia/Africa is projected to

increase 65%, from $938 million in FY 1999 to $1.55 billion in FY 2000. Financing in Latin America is projected to increase over 70% from $1.2 billion in FY 1999 to $2.1 billion in FY 2000.

The $7 million increase in the administrative budget is necessary for the training, personnel, and equipment upgrade necessary for the Bank to fulfill its mandate of protecting U.S. jobs by financing exports to developing countries. Ex-Im Bank needs sufficient funds to hire and train personnel to staff divisions which are processing complicated transactions, and it needs new funds to update a computer system which does not match those used by competing export credit agencies. The Bank will need modernization if it is to reduce case processing time and reach out to the thousands of small businesses which have not availed themselves of the Bank's services and if it is to defend U.S. jobs by keeping exporters competitive in a very difficult international market.

In addition, some of the funds will be used to modernize Ex-Im Bank's headquarters, which was built in 1940 and is in dire need of renovation. GSA currently plans ``life safety upgrades'' to the building beginning in FY 1999. These upgrades include installation of sprinklers and lights throughout the building followed by upgrades to the electrical systems. The upgrade of computer equipment is dependent on demolition work done by GSA, which will provide an opportunity for the Bank to upgrade the telecommunications system and network cabling as well as to improve the security of the building.

Question. On the administrative side, your request calls for deploying additional personnel around the world. The Commerce Department does have significant numbers of personnel deployed through the Foreign Commercial Service to promote U.S. business interests. Explain why Ex-Im Bank needs its own additional personnel.

Answer. While we are fully aware of the services provided by the Department of Commerce through the U.S. Foreign and Commercial Service, we have learned through experience that there is just no substitute for having a representative of Ex-Im Bank directly involved when the Bank is trying to open or expand business in key markets. These representatives will be knowledgeable knowledgeable about the Bank's programs, many of which are very detailed. They will also be knowledgeable about the special circumstances surrounding local economies as well as the political considerations which might be involved. In volatile yet potentially profitable markets, such as sub-Saharan Africa, Turkey, and East Asia, it is vitally important to have such a representative present, personnel who know the market and who can help the Bank compete against the representatives of competing export credit agencies. This is one of the best ways the Bank can level the playing field for U.S. exporters and preserve U.S. jobs.

Question. Justify the $1 million requested for pay raises.

Answer. For FY 1999, Ex-Im Bank will be operating below its approved FTE level of 427 at about 420 FTE. Approximately half of the increase in personnel compensation from FY 1999 to FY 2000 is to bring the number of Bank personnel up to the 427 FTE approved level. The remaining amount is to cover cost of living and locality pay increases.

helicopter sales to turkey

Background

In 1990, Congress extended to Ex-Im Bank a limited authority to use credits for the sale of helicopters to Turkey and Greece. This to my knowledge is the one and only time Congress has allowed the use of Ex-Im Bank credits for a military sale. Report language in the conference bill stated that this authority was granted ``on a one time basis only,

for a period of one year only''.

Pursuant to this authority Ex-Im's board chose to authorize the sale of 200 UH-60L (Blackhawk) helicopters to Turkey, and to allow the implementation of that sale to extend through the year 2001. A contract for the sale of 150 helicopters to Turkey was signed in 1992, and, as I understand it, only a portion of those helicopters have been delivered to date. Efforts are now underway at Ex-Im Bank to use this authority to execute the sale of additional Blackhawk helicopters to Turkey. Additionally, we have heard that other companies (Boeing/Textron/Bell) are pursuing the sale of up to 50 additional attack helicopters to Turkey using the same authority.

Question. Do you feel that the 10-year implementation period for this sale, and the use [of] multiple export licenses to implement it, is consistent with congressional intent?

Answer. Title IV of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1990 (``FY 1990 Appropriations Act'') contained the authority for Ex-Im Bank to finance the sale of Sikorsky helicopters, spare parts and related equipment. This authority allowed Ex-Im Bank to use its loan guarantee program to finance the commercial sales of defense articles and services destined for Greece and Turkey, ``notwithstanding any other provision of law,'' provided such authority is not used for the procurement of defense articles or services for use on Cyprus. On September 27, 1990, near the end of FY 1990, pursuant to this authority, the Board of Directors authorized a loan guarantee in the amount of $1,366,279,271 to support the financing of 200 helicopters to the Turkish Ministry of National Defense. The helicopters were projected to be delivered over the period 1992 to 2000, and the loan was to be disbursed in related tranches, each repayable in 20 semiannual installments.

Prior to final approval, in accordance with the procedures set forth in Section 2(b)(3) of the Export-Import Bank Act of 1945, as amended, Ex-Im Bank, on August 16, 1990, notified Congress that Ex-Im Bank was prepared to authorize the subject financing. These Congressional notifications cited the FY 1990 Appropriations Act as the legal authority for Ex-Im Bank support and also indicated that the ``200 helicopter kits will be delivered incrementally in a series of annual deliveries between 1992 and 2000.'' After expiration of the required period for Congressional review, the Board of Directors authorized the subject financing.

At the time of final approval on September 27, 1990, Ex-Im Bank charged the entire amount of the commitment, $1,366,279,271, against the limitation on guarantee commitments for fiscal year 1990 set forth in the FY 1990 Appropriations Act.

[Note.--Because Ex-Im Bank does not issue export licenses, the clause referring to ``use of multiple export licenses'' was not addressed.]

Question. How can this authority be legitimately used for the sale of an additional 50 attack helicopters, given that Congress was officially notified of the sale of UH-60L (Blackhawk) helicopters in August of 1990.

Answer. The sale of an additional 50 Blackhawk helicopters would fall within the scope of the transaction authorized by Ex-Im Bank in September 1990. As set forth in Ex-Im Bank's notification to Congress in August of 1990, the subject transaction was authorized to support the sale of 200 helicopters to be used in utility, reconnaissance, medical evacuation and search and rescue roles. The helicopters were projected to be delivered between the period 1992 and 2000, with the

guaranteed loan to be disbursed in related tranches. The fact that the subject transaction was approved in 1990 pursuant to FY 1990 authority does not affect the duration of the disbursement schedule. Ex-Im Bank routinely approves transactions involving disbursement schedules spanning several years to cover construction and other delivery periods. Since the additional helicopters are within the number originally authorized, this authority can be used for the sale of an additional 50 Blackhawk helicopters.

However, this authority has not been, and Ex-Im Bank believes it cannot be, used for attack helicopters.

Question. Do the terms of the so-called Leahy amendment on provision of U.S. funded equipment to security units alleged to be involved in human rights abuses apply to these sales. If not, why not.

Answer. The so-called Leahy amendment does not apply to this transaction. The amendment, which is contained in section 570 of the Foreign Operations, Export Financing, and RelatedPrograms Appropriations Act, 1998 (``FY 1998 Appropriations Act'') and Section 568 of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1999 (``FY 1999 Appropriations Act'') provides, in relevant part:

> None of the funds made available by this Act may be provided to any unit of the security forces of a foreign country if the Secretary of State has credible evidence that such unit has committed gross violations of human rights, unless the Secretary determines and reports to the Committees on Appropriations that the government of such country is taking effective measures to bring the responsible members of the security forces unit to justice....
>
> [Emphasis added]

The Leahy amendment applies to ``funds made available by [the FY 1998 Appropriations Act and the FY 1999 Appropriations Act].'' However, the entire amount of Ex-Im Bank's support for the financing of the subject transaction was charged against the Bank's limitation on guarantee commitments for fiscal year 1990 set forth in the FY 1990 Appropriations Act. None of the funds made available to Ex-Im Bank by the FY 1998 or FY 1999 Appropriations Acts have been used or obligated for the subject transaction. And, thus, the Leahy amendment does not apply to this transaction.

status of program in russia

Question. Ex-Im has not approved any new applications since August of 1998 in Russia according to your statement. They are, however, still disbursing against transactions previously approved. What is the status of claims or potential losses in your Russian transactions?

Answer. Ex-Im Bank currently has two outstanding private sector guarantee claims totaling $11,979,000 against INKOMBANK, a Russian borrower. While Ex-Im Bank does have $1,655,000 in commitment fee arrears, we expect repayment.

Question. What are the prospects for renewing new Ex-Im transactions in Russia?

Answer. Ex-Im Bank has not publicly changed its policy in Russia since the August 1998 financial crisis. The Bank's stated cover policy is: open for short-, medium- and long-term public sector transactions and for short- and medium-term private sector transactions. In the aftermath of the financial crisis, however, Ex-Im Bank has not been prepared to consider new sovereign risk or other unsecured exposure. To

date, Ex-Im Bank has not approved any new transactions under its programs. The Bank continues to honor existing commitments to U.S. exporters by permitting disbursements to continue for transactions which had already been approved and documented prior to the crisis. (In connection with one such prior transaction, secured by hard currency oil export earnings held in offshore escrow accounts, Ex-Im Bank did approve an increase of $6.3 million for additional U.S. supply.) This policy is consistent with that of the other major export credit agencies and is unlikely to change until Russia establishes an economic program acceptable to the IMF and G-7, and the economic outlook improves sufficiently to warrant considering new business on an unsecured basis.

Exposure as of December 31, 1998 and Repayment Experience to Date: Ex-Im Bank has $2.4 billion in exposure in Russia, of which $1.2 billion is outstanding (disbursements less repayments), $739 million is yet to be disbursed on approved transactions, and $455 million has been authorized but not yet made operative. Almost $1.5 billion in exposure is secured by oil and diamond export sales, or under asset-based aircraft financing. Virtually all exposure is under the medium-term and long-term guarantee programs. Delinquencies and claims paid to date have been limited to the commercial banking sector. Ex-Im Bank's exposure breaks down as follows:

(Dollars in millions)

	Exposure	Outstanding
Sovereign risk (Vnesheconombank).....	$922	$610
Secured by oil exports under the Oil and Gas Framework Agreement (OGFA).....	1,092	298
Secured by the sale of diamonds Almazy Rossii Sakha (Diamonds of Russia).....	62	58
Asset-based aircraft (Aeroflot).....	301	203
Commercial banking sector (eight banks):		
Short-term insurance.....	0	0
Medium-term insurance.....	14	14
Medium-term guarantees.....	22	22
Claims paid on bank transactions.....	12	N/A
Subtotal commercial banking sector....	48	36
Total.....	2,425	1,205

Under Ex-Im Bank's short-term insurance program, transactions totaling $28.7 million were approved, and fully utilized. Payments were made on time and there is nothing outstanding under the program.

Two claims totaling $12 million were paid as a result of one bank's failure to pay the insured lenders. Efforts to collect from the bank are underway and prospects for recovery appear encouraging. Another bank made a partial payment on a November 1998 installment, and is likely to seek rescheduling of the balance outstanding. A third bank was late but ultimately paid a December 1999 installment. The total outstanding debt involving these three banks amounts to $24 million. The remaining $12 million in debt owned directly by or guaranteed by five other Russian commercial banks is current at present.

Question: What are the prospects for renewing new Ex-Im transactions in Russia?

Answer. Once economic conditions warrant, Ex-Im Bank could again move forward with sovereign risk lending. The prospects with regard to the commercial banking sector are less clear and consequently, it will take longer to determine which of the surviving banks in Russia represent acceptable credit risk. The demand for Ex-Im Bank financing in the energy sector could increase in the future, as a number of Russian oil companies have inquired concerning financing under the Oil and Gas Framework Agreement. The actual timing and need for Ex-Im Bank financing will depend on a recovery of the demand for and price of crude oil. Inquiries have been received involving other sectors as well, such as diamonds, forestry, and agricultural equipment.

Question: What is the status of demand for Ex-Im involvement in the energy sector in Russia?

Answer. Gazprom: No business has been conducted with Gazprom under the Memorandum of Understanding which was signed in November 1994. However, Gazprom has recently indicated a renewed interest in utilizing Ex-Im financing, and the Bank is prepared to consider requests on a case-by-case basis. The structure, terms, and conditions of the financing would be consistent with the Memorandum of Understanding of November 1994, including the dedication of proceeds from long-term sales contracts of natural gas or other products as a back-up for repayment of the financing. The potential amount of financing would to an extent depend, therefore, on the revenues available for allocation under such long-term sales contracts.

Question: To what extent are Ex-Im transactions in Russia tied to IMF conditionality or disbursement schedules in Russia?

Answer. As indicated above, Ex-Im Bank's current policy of not considering new sovereign risk or other unsecured exposure, while continuing to permit disbursements on existing operative transactions, which is consistent with the approach of other major export credit agencies, is unlikely to change until Russia establishes an economic program acceptable to the IMF and G-7, and the economic outlook improves sufficiently to warrant considering new business on an unsecured basis. In high-risk situations in general, the presence or absence of an IMF program, i.e., a standby arrangement, and a degree of compliance with the program, is an important, though certainly not the only, factor in establishing Ex-Im Bank's cover policy.

Obviously, simply having an IMF program does not constitute assurance of credit worthiness in and of itself. But, such a program is generally regarded as offering greater assurance of an improvement in economic conditions, in part because it establishes various targets, conditions, and limitations consistent with economic stabilization and growth. Furthermore, it offers greater prospects of restoring international capital flows, both official multilateral and bilateral financing and private credit, and also foreign investment, which is also of great importance in contributing to a significant improvement in economic conditions.

Questions for the Record by Mr. Kingston

Question: The economic turmoil has continued in Asia now for over a year. I think by now you have a better idea of its impact on transaction demand. I know that demand spiked early in SE Asia. Will you describe that a little more for Fiscal 99 and what its extended impacts may be into FY 2000?

Answer. Below is a breakdown of Ex-Im Bank's insurance and longer term financing programs.

insurance

Demand for Ex-Im Bank short term (up to 180 days and on an exceptional basis, up to one year) financing support in Southeast Asia jumped dramatically during FY 1998 to record levels. In response to this demand, Ex-Im Bank provided over $1 billion in short-term insurance support for the sale of raw materials, spare parts, and other consumables and materials from U.S. exporters to Korea on letter of credit (L/C) payment terms in 1998. Looking ahead, Ex-Im Bank anticipates that the demand for cover on short term L/C's issued by Korean banks will continue; however, demand should begin to eventually taper off, assuming the Korean economy improves and the private market can once again assume the short term risks on its own. In addition, we would also anticipate an increase in demand for medium term support (1-5 year repayment) for Korean corporates. All medium term requests are being channeled to Ex-Im Bank's medium-term program for Korea which carries the sovereign guarantee of the Korean government.

Demand for Ex-Im short term support in other Asian markets is expected to grow overall (compared to FY 1998 levels). Most of that increase will be attributable to usage of the Indonesia letter of credit program. While the region is beginning to show signs of recovery, economic conditions continue to constrain the availability of private sector financing. Therefore, overall demand for Ex-Im Bank short term financing is expected to remain strong during FY 1999.

long-term financing

Ex-Im Bank projects higher demand levels for medium and long-term financing in certain markets/sectors for Asia in FY 1999 and FY 2000, which would counterbalance the decline in term financing for Ex-Im Bank public sector/corporate risk activity in such Asian markets as Indonesia and Thailand. These estimates are based on pending power transactions for Korea totaling approximately $1.2 billion as well as power sector project finance transactions in China, Thailand and the Philippines totaling $380 million. Also, aircraft financing will experience its greatest increase in Asia is FY 1999. Aircraft authorizations for Asia could reach $3.5 billion for this fiscal year. The latter is due to the adverse effects of the Asian economic scenario and the associated capital markets withdrawal from Asian aircraft finance, which have caused these airlines that have historically obtained financing in the capital markets to pursue Ex-Im Bank support for their 1999 aircraft deliveries. Such activity levels in these markets/sectors are likely to continue into FY 2000.

Question: How much of FY 1999 carryover business do you expect to bring into FY 2000?

Answer. We do not expect to carryover any business from FY 1999 into FY 2000. However, the Bank may have to use up to $35 million of tied aid funds for non-tied aid cases. Should this become necessary, the Bank will notify Congress through normal notification procedures.

Question: Please describe your outreach efforts to small business. You obviously meet the statutory percentage threshold for assisting small business, but how does the Bank go about ``advertising'' its services to them to make them aware of assistance they may not even know exist?

Answer. Ex-Im Bank has relied on intermediaries to be the main engine of market promotion for its programs. The thinking has been that if we can educate distributors such as banks, brokers, states, etc., they will sell the products to the exporters. Given the lack of budget

resources for a large field force or advertising, Ex-Im Bank has historically not been able to directly approach exporters in a significant way.

history of field offices

Ex-Im Bank began to market its small business programs and innovations, the Working Capital Guarantee (WCGP) and Small Business Policies, in 1984 in the Midwest. We quickly realized that providing information about the programs did not provide access. Local representation and distributors were a must. Because Ex-Im Bank had no field offices the traditional distributors had been banks and insurance brokers, but something else was needed to help small businesses.

To obtain a field presence, we attempted to use the field offices of the U.S. Department of Commerce and the Small Business Administration in four mid-western states. This approach was not successful because the responsibilities for Ex-Im Bank outreach were never incorporated into the other agencies' job descriptions. For selling insurance policies, Ex-Im Bank worked very closely with the field offices of the Foreign Credit Insurance Association (FCIA) with which we had a reinsurance agreement. In the late 1980's, we also had a one-person office in Los Angeles for a short period.

In late 1992 with the federalization of the FCIA, Ex-Im Bank inherited five field offices now located in New York City, Miami, Chicago, Houston and Long Beach. At first these offices wee primarily marketing the insurance policies, but they developed into full-service offices marketing all of Ex-Im Bank's programs. Their new focus is on selling directly to small business exporters, and their performance will be measured against sales goals. We have alsoestablished our sixth regional office, which is the Mid-Atlantic office that services Maryland, West Virginia, North Carolina and Washington, D.C.

outreach to brokers and banks

The insurance program has traditionally relied on insurance brokers to sell the policies. Much time and effort has been put into cultivating this relationship. In order to make the sale of the Small Business Policy more attractive to the brokers, we increased our commission scale to 40% in 1994. Most brokers, however, still do not make a great effort to sell this policy.

We have periodically done major outreaches to promote the Bank or inform customers of programmatic changes. One such outreach, in 1992, was undertaken to reach small banks that had typically not used Ex-Im Bank. These banks were targeted because they served small businesses. In 1994, there was a joint outreach between SBA and Ex-Im Bank for the harmonization of the WCGP.

We have been successful in bringing in regional banks and some community banks to distribute the programs. One problem that remains with us today in the banking area is the lack of communication between the international officers knowledge in Ex-Im Bank and the domestic calling officers who seek out small businesses and would benefit from having information on Ex-Im Bank. With the recent bank mergers, we are now facing the problem of fewer banks willing to do small business and small transactions.

other outreach activities

Since 1985, Ex-Im Bank has been conducting various training seminars in order to attract banks which had small business customers. We are continuing to do these seminars both in Washington and in cities around the country.

In 1988, Ex-Im Bank began the City/State Program as a major tool to reach small businesses. The idea of that program was simple: Ex-Im Bank

had the funding but few local contacts, and the states had the contacts without much money. Thus, the Bank married the two and trained local government people already in the business of promoting trade from their areas in Ex-Im Bank programs. There are currently 35 partners in the program.

At this time, the Bank has a major outreach to trade associations through which we hope to increase their membership. In fact, Ex-Im Bank has placed a priority on those associations that have many small members. Early indications are that many will decide to partner with us.

more aggressive outreach

Ex-Im Bank has entered a new aggressive outreach program aimed directly at exporters, something that we have not tried in many years. Our field offices will be the main engine driving this effort, which will be supported with qualified leaders from headquarters.

Our WCGP and insurance programs have been modified to make them more user friendly and attractive to small businesses. We will continually review our products to meet the changing needs of the market place to make them more user friendly.

For the first time, a person will be assigned full time to small business product development. Ex-Im Bank will also track our outreach efforts so that we will have a history of our calling efforts with each customer. To do this, the Bank has purchased a contact management system.

We will also continue to look for additional distributors of the programs. One exciting area is the asset-based lenders to which Ex-Im Bank will be making a market drive to develop their interest in utilizing the WCGP. In addition, the Bank will continue our efforts to interest more localities in joining the City/State Program. Ex-Im bank is also reaching out to minority and woman-owned businesses and to companies in rural and economically depressed urban areas. Finally, the Bank is looking at the possibility of working with a private company that will put on seminars to get more smaller banks interested in export finance. Ex-Im Bank's role will be to help market that program and supply materials.

Obviously, Ex-Im Bank hopes these efforts to reach more small businesses will increase small business exports. The Bank also sees our outreach as a learning experience both in terms of how to sell our products and how the products can be improved to meet the needs of the market place.

The success of these efforts will largely depend on the availability of resources through our administrative budget.

Question. Also, while the percentage of small business transactions has held steady or increased, the dollar amount has dropped lately. Has that continued? Can you provide a chart for the last five to ten years showing the trend of small business transactions both as a percentage of the whole and in dollars?

Answer. Over the past five years, the number of small transactions has remained fairly constant with two exceptions, 1995 and 1998. In 1995, Ex-Im Bank dramatically increased its small business authorizations. The Bank went from 1,576 authorizations in 1994 to 1,910 in 1995, a 21% increase. However, the Bank experienced a drop in the number of transactions from 1,935 in fiscal year 1997 to 1,864 in 1998, a 4% decrease. At the same time, the actual authorization amount increased from $1,777 million in 1997 to $2,229 million in 1998, a 25% increase.

For your further information, we have attached several charts. One

chart shows Ex-Im Bank's small business statistics in terms of the number and amount of small business transactions from fiscal year 1994 to 1998. Chart 2 shows small business trends in terms of percentage of overall transactions submitted and authorized also from fiscal year 1994 to 1998. Lastly, Chart 3 shows the percentage of small business support under all of Ex-Im Bank's financing programs over the past five fiscal years.

Question. We learned last year that no business was expected from Ex-Im's memorandum of understanding with GAZPROM in Russia. Has that changed? Are you still conducting dialogue of any kind or business with GAZPROM?

Answer. No business has been conducted with Gazprom under the Memorandum of Understanding which was signed in November 1994. However, Gazprom has recently indicated a renewed interest in utilizing Ex-Im financing, and the Bank is prepared to consider requests on a case-by-case basis. The structure, terms, and conditions of the financing would be consistent with the Memorandum of Understanding of November 1994, including the dedication of proceeds from long-term sales contracts of natural gas or other products as a back-up for repayment of the financing. The potential amount of financing would to an extent depend, therefore, on the revenues available for allocation under such long-term sales contracts.

[GRAPHIC(S) NOT AVAILABLE IN TIFF FORMAT]

Submitted to OPIC

Questions for the Record by Mr. Porter

climate change

Question. We have heard much about the need for ``meaningful participation'' by developing countries prior to ratification of the climate change treaty. Disturbingly, I note the continuing growth of OPIC and Exim's portfolios not only in thermal power plant projects, but also in fossil fuel extraction projects such as oil and gas--thereby compromising ``meaningful participation'' by developing countries in the short and long term in helping solve the climate change problem:

(A) OPIC and Exim have agreed to release annual greenhouse gas emissions reporting, but only for thermal power plants. Why do you not consider greenhouse gas emissions for other projects?

(B) Will there be a commitment to investment in renewable energy to help further the goals of meaningful participation in the context of the climate treaty?

Answer. (A) The vast majority of greenhouse gas emissions occur when fuels containing such greenhouse gases are combusted to provide power for electricity, transportation, heating or other end-uses. Therefore, the exploration and extraction of fossil fuels, such as oil and gas, does not in itself result in substantial emissions. Since the amount of greenhouse gas emissions is related to the type of end-use, and oil and gas can be processed and consumed in a variety of ways, there is no way to predict at the extraction stage, how the fuels will ultimately be used and the volume of emissions that will subsequently occur. For example, natural gas may be used to fuel a power plant, in which case all carbon dioxide contained in the gas will be released into the atmosphere. Alternatively, if the gas is used as a feedstock

to produce fertilizer, most of the carbon dioxide will be sequestered in the final product and will not contribute to greenhouse gas emissions.

(B) OPIC has and will continue to support investments in renewable energy projects. For example, OPIC has recently supported low impact hydroelectric projects in Costa Rica, India and the Philippines. OPIC is also investigating opportunities to support commercial projects using solar and wind energy in cooperation with multilateral financial institutions such as the Global Environmental Facility and the United Nations Environment Program.

Questions for the Record by Mr. Kingston

opic outreach to small business

Question. How have the number and size of OPIC's direct loans to small business changed over the last five years? Can you submit that on a chart for us? Will you please also describe your outreach program to inform small businesses of the opportunities you provide?

Answer. During fiscal years 1994 through 1998, 100 percent of OPIC direct loans, totaling $238 million, went to projects involving U.S. small businesses, and 29 percent of the projects receiving OPIC loan guaranties ($1.6 billion) involved small businesses. Smaller businesses or cooperatives were involved in 13 out of 47, or 28 percent, of all OPIC-assisted projects in fiscal 1998.

The following chart shows the direct loans committed to small business over the past five years.

FINANCE SMALL BUSINESS DIRECT LOAN COMMITMENTS
FY 1994 THROUGH FY 1998

Fiscal year	Number of small business loans	Amount committed
1994	6	$76,300,000
1995	3	31,500,000
1996	3	36,400,000
1997	2	17,428,000
1998	8	76,754,500
Total	22	238,382,500

It is often a challenge for small business to find the financial and personnel resources to make an overseas investment on their own. But many benefit as suppliers to investments by larger U.S. firms supported by OPIC. OPIC's survey of its projects found that approximately two-thirds of identified suppliers to OPIC-backed projects are U.S. small businesses. For example, larger companies often turn to small U.S. businesses for products and services to support an overseas project. The projects OPIC assisted in fiscal 1998 are expected to procure, during their first five years of operations, at least $204.8 million from U.S. small businesses located in 37 states and the District of Columbia which will support 576 U.S. jobs. According to the data collected for fiscal years 1994 through 1998, OPIC has identified the specific suppliers for nearly $9 billion in

expected procurement for OPIC-assisted projects.

An important component in OPIC's small business outreach program is to identify the small business suppliers who are contributing to OPIC-assisted projects throughout the world. This outreach provides suppliers with an opportunity to learn more about their contribution to OPIC's projects and to utilize this opportunity to provide information about OPIC's products.

In addition, OPIC is reaching out to small and medium-size businesses that are seeking to invest overseas for the first time but need help with political risk insurance or to cross the key financial threshold. OPIC's award winning website contains a user-friendly small business page. We also have a special streamlined process for small business including a shorter, simplified application form.

OPIC works with the other trade agencies, small business organizations, and state and local trade and commerce officials to ensure that small businesses are aware of the products, service and advice available at OPIC. OPIC sponsors and participates in seminars, forums, and conferences throughout the U.S. which are focused on increasing awareness of small and medium-sized businesses of the opportunities for overseas investment and how OPIC can assist them.

opic and small business

Question. What proposals have been presented by your new small business task force, and what changes have come about as a result of its recommendations?

Answer. OPIC has a long-standing commitment to help small and medium-sized businesses participate in the opportunities offered by overseas investment. This commitment includes extensive outreach to small and medium-sized businesses as well as an effort to increase small business use of OPIC products. In fiscal year 1998, almost 30 percent of OPIC assisted projects were small businesses.

But OPIC is moving forward to enhance these efforts. 1999 is the OPIC ``Year of Small Business'' which will help to focus attention on building on OPIC's solid record of helping small businesses. Following on the efforts of the Small Business Task Force, a Small Business Action Team was created to implement a series of action steps to expand small business outreach and to serve as advocates within OPIC. OPIC's award winning website includes a user friendly small business page. OPIC has sponsored or participated in small business meetings and seminars in eleven states and launched a California State Small Business Pilot Program. OPIC's exporter program is reaching out to small businesses who are serving as suppliers to OPIC-assisted projects.

In the finance area, OPIC has implemented new small business loan structures. The minimum loan size has been reduced from $2 million to $250,000 to address the needs of small business. We have also created a streamlined small business finance agreement. In addition, we have expedited the credit analysis process for small businesses.

To encourage small business use of OPIC's political risk insurance, we have created a special simplified insurance application for small businesses which reduces the paperwork burden. OPIC also offers special pricing for insurance for small business and provides limited brokerage fees for brokers helping small business.

corruption and organized crime

Question. How does OPIC measure and account for the impact of official corruption and organized crime in the New Independent States and Eastern Europe? To what extent/how directly to these factors impact your assessment of political risk in those regions?

Answer. OPIC has extensive due diligence procedures in place to detect corruption before we agree to support a project, as well as standard requirements that our customers certify that they have not and are not engaged in corrupt practices. If we discover corrupt practices once support has been issued, we have significant remedies, including terminating OPIC support, seeking damages, and pursuing criminal penalties.

OPIC takes special care in underwriting projects in the NIS due to concerns over corruption and organized crime. In screening projects, in addition to the standard questions relating to Foreign Corrupt Practices Act compliance in the OPIC application, OPIC may request information from the investor regarding the identity of local partners and any relationship they may have with the host government. OPIC has also relied on information provided by the U.S. Embassy in the host country, and has enlisted the assistance of the CIA in making inquiries regarding local partners.

asia

Question. Can you comment on the impact of the Asian financial crisis on the volume of activity at each institution? Has this crisis increased costs for U.S. businesses and driven up the amount of assistance, advisory and financial, delivered to customers by your agency?

Answer. The Asian financial crisis has had two countervailing effects on the level of political risk insurance and financing issued by OPIC although, overall, the level of activity is down. As a result of the crisis, the level of activity by U.S. investors, both direct equity investors and lenders, has declined. The combination of increased risk and shrinking demand has caused investors to reconsider and/or scale down their investment plans. However, to the extent that U.S. businesses are still investing, there is an increased interest in OPIC programs. Lenders to projects that 18 months ago would have made loans without political risk insurance are now requiring it as a condition to provide financing. Similarly, project sponsors who in the past may have been comfortable assuming host country political risk are increasingly seeking coverage.

The crisis has increased the cost for U.S. businesses operating in Asia in a number of ways including the following (in no particular order):

Higher interest rates by lenders to reflect higher risk and reduced capacity

The increased risk has also limited the tenor of debt available to project sponsors which has the effect of increasing the cost of doing business

Higher rate of return required by equity investors to reflect increased risk

Additional costs associated with restructuring charges (legal and advisory fees)

Requirements to contribute additional equity and/or debt due to shortfalls by local partners affected by the crisis

Direct and indirect costs associated with renegotiation of project agreements and, in particular, tariffs adjustments required by government purchasers of services or products (e.g. power projects)

Added cost of political risk insurance where it may not have been required before

Higher premium rates for political risk insurance.

The current global economic downturn requires OPIC to protect its

portfolio in a prudent and proactive manner. Additional resources are needed for screening, due diligence, monitoring and advocacy. Towards this end, the Administration requests that OPIC be authorized to spend $35 million from its own earned resources for administrative expenses. The need for advocacy, claims-related negotiations, and workout are likely to increase if countries in affected parts of the globe fail to free themselves from the economic downturn. Full funding of OPIC's administrative expenses request will enhance OPIC's ability to manage its portfolio in a manner that protects the U.S. government and the American taxpayer.

russia

Question. What plans does your agency have for Russia? have you written off any or all activities with Russia due to its insolvency and rampant crime? What might your agency do to assist U.S. companies to help lift Russia out of its quagmire? Or, should we force Russia to fend for itself.

Answer. OPIC has seen a sharp increase in interest in its programs from U.S. companies still interested in Russia after the August crisis. OPIC has established a task force to closely monitor its portfolio in Russia.

OPIC staff has traveled to Russia to consult with Russian government officials, clients and the business community, and have followed up with visits targeted at assisting specific clients with problems. OPIC has not suffered any losses due to insolvency or crime. Consistent with its prudent approach to its portfolio, this year OPIC set aside additional country specific reserves for exposure to Russia, Georgia, the Ukraine, Moldova and Kazakhstan. OPIC believes that it has an important role to play in assisting U.S. investors with strategic projects that support the development of emerging markets such as Russia. We continue to be concerned by the economic situation and the difficulties that investors face in protecting their legal rights. However, we believe that we can proceed prudently with commercially strong projects with significant risk mitigants. In particular, OPIC will finance only those projects whose sponsors have the financial and managerial wherewithal to operate in this difficult climate and whose cashflow will be adequate to enable the project to sustain itself and repay debt in a timely manner.

If the economic turmoil in Russia continues, it will become more critical for OPIC to protect its portfolio, and the interests of the U.S. taxpayer, through increased screening, due diligence, monitoring, and advocacy. To support such increased activity, the Administration has requested that OPIC be authorized to spend $35 million from its own earned resources on administrative expenses in FY 2000.

brazil

Question. Could you comment on how your activities in Brazil might be impacted if the local economy and currency continue to slide downward?

Answer. In the past five years, Brazil has made remarkable progress in opening its economy to foreign investors. During this time, U.S. investors have found attractive long-term investment opportunities through Brazil's multi-sector privatization program and growing consumer market possibilities. As a result, OPIC has experienced growing demand from U.S. investors in Brazil, particularly with regard to insurance coverage for inconvertibility risk. Recently, Brazil has experienced economic turmoil due to the effects of the Asian and Russian crises, as well as the devaluation of its own currency. While these events may have deterred short-term investors, long-term

investors remain committed to this important emerging market.

OPIC's largest exposure in Brazil is under the political risk insurance program. As mentioned in the testimony, there has been no notification of pending insurance claims as a result of Brazil's current economic difficulties. Because OPIC Insurance does not cover commercial risks or losses due to devaluation, the effect on OPIC Insurance of such indirect impacts is likely to be minimal.

With regard to the potential for future direct impacts of economic turmoil on OPIC-supported projects, OPIC is carefully monitoring the situation in Brazil. While OPIC support for certain types of risk is limited, OPIC continues to insure and finance in Brazil projects that meet OPIC eligibility and underwriting criteria. As part of the management of its insurance portfolio in Brazil, OPIC rations the amount of coverage offered to individual projects, uses underwriting tools, such as claims caps and waiting periods, to mitigate risk, charges higher premiums based on risk and demand, and promotes portfolio diversification across sectors. There is no evidence at this time to suggest that the Brazil situation will deteriorate to a point that will generate significant losses for OPIC.

Question. There is a great deal of concern in Congress right now that some countries suffering in the financial crisis are dumping cheap products in the U.S. to escape their economic problems. What role, if any, does your agency have in causing this problem? Will you curtail your export or direct investment assistance to halt such dumping of products? Is greater financing of your agencies warranted if this problem persists?

Answer. OPIC does not support projects that contribute to the dumping of cheap products in the United States. All projects seeking OPIC assistance are carefully screened. In accord with its statutory mandate, OPIC declines to assist those projects with the potential for an adverse effect on the U.S. economy and employment. Furthermore, OPIC operates a comprehensive monitoring program to evaluate the actual impact of OPIC-assisted projects on the U.S. economy and employment.

Each project seeking OPIC assistance is carefully screened on a case-by-case basis to estimate its U.S. employment impact. OPIC does not support any projects that might harm the U.S. economy or that will result in a loss of U.S. jobs. OPIC collects and analyzes, both geographically and sectorally, the projected U.S. employment and associated economic effects of the projects it assists. Even before taking into account their positive U.S. employment impacts, none of the fiscal 1998 projects are expected to result in any U.S. job loss.

OPIC's monitoring program has found that no projects have negatively affected U.S. employment. This outcome demonstrates the effectiveness of the economic evaluation and screening procedures used by OPIC in determining the eligibility of project. Monitoring confirms that OPIC-assisted projects provide substantial benefits to both the U.S. and host country economies by stimulating exports, creating jobs, and fostering growth and development. On the contrary, OPIC projects have generated 237,000 American jobs and $58 billion in U.S. exports.

Questions for the Record by Mr. Lewis

opic reauthorization

Question. Mr. Munoz, your Annual Performance Plan for FY 2000 stats that the Administration will seek a four year reauthorization of OPIC programs.

Has the Administration sent legislative language to the Hill yet?

What type of changes would you like to see in reauthorization bill? What do you think the likelihood is that the authorizing committee will move a reauthorization bill?

Answer. The Administration sent to the Congress on February 5, 1999, a legislative proposal with bill language seeking a four-year reauthorization of OPIC. No increase in the current liability ceiling is required this time. A copy of the OPIC legislative proposal as submitted to the House of Representatives follows.

Reauthorization of OPIC will help America compete and support development and stability in strategic regions, all at no net cost to the taxpayer. We are hopeful the Congress will take prompt action to enact a reauthorization bill. We have had initial discussions with the authorizing committees in the House and Senate and we will continue to work with all of the key committees to reauthorize OPIC and ensure continued availability of OPIC programs and services.

[GRAPHIC(S) NOT AVAILABLE IN TIFF FORMAT]

caspian oil and gas pipelines; kyoto protocol

Question. The FY 1999 House Report expressed strong support for OPIC's role in the development of Caspian oil and gas pipelines and your own statement even highlights this issue.

What is the status of this project? When OPIC states its support for ``environmentally sensitive development,'' what do you mean? Is OPIC involved with the Kyoto protocol?

Answer. OPIC has not yet received any applications for projects involving the construction of oil and gas pipelines in the Caspian region, however, we have been involved in discussions with several companies and anticipate that we will be asked to support one or more such projects in the future.

OPIC's policy regarding ``Environmentally sensitive development'' is articulated in OPIC's Environmental Handbook issued in draft form on February 25, 1998, in the Federal Register and on OPIC's website. The Handbook, which is in the process of being finalized, stipulates the environmental policies, criteria and procedures that OPIC will use to determine the projects it can support, and the conditions it will apply to such support, consistent with its statutory mandates. As applied to large-scale oil and gas pipelines, siting must take into account OPIC's Categorical Prohibitions as described in Appendix F of the Handbook, which references certain internationally protected areas as well as practices involving human resettlement.

All large-scale oil and gas pipeline projects must submit Environmental Impact Assessments, which are made public by OPIC subject to a 60-day public comment period. The project must meet standards for pipelines included in the 1998 World Bank Pollution Prevention and Abatement Handbook. In addition, OPIC support of such a project would require an independent third-party audit within the first three years of project operation.

OPIC has not been involved in the negotiations of the Kyoto protocol, but is aware of the protocol and its provisions. The Kyoto protocol was negotiated and signed by the Administration and remains to be submitted to the Senate for ratification once certain conditions are met. OPIC has taken no actions as a response to Kyoto; it does carry out the environmental mandate in its statute.

impact of economic situation in brazil on opic's projects

Question. Your written testimony states that the current economic situation in Brazil has had no direct impact on OPIC projects. Have

there been indirect impacts on OPIC's projects in Brazil? Do you envision any direct impacts on OPIC's activities in Brazil in the near future?

Answer. By ``direct impact'' we mean that, to date, OPIC has not sustained any losses, nor are any anticipated, in the near future. There has been no indirect impact, but we are monitoring projects in the portfolio that could be adversely impacted if the current economic situation were to continue for some time.

utilization of y2k supplemental funding

Question. Would you please describe how you have/or plan to utilize the $2.1 million OPIC received in Y2K supplemental funding? Has Congressman Horn's Subcommittee on Government Management, Information and Technology rated OPIC? If so, do you agree with the grade you received?

Answer. The answer to the second question concerning Congressman Horn's subcommittee is no. OPIC, because of its size, has not been graded. OPIC provides quarterly Y2K progress reports to the Office of Management and Budget (OMB). Organizational Information Requirements Analysis (OIRA) and the Office of Management and Budget (OMB) are satisfied with the progress that OPIC is making to ensure that OPIC will fully function in January 2000.

Following is an outline of how OPIC plans to utilize the $2.1 million.

1. Independent Verification and Validation of the ``Wang'' systems: The ``Wang'' systems are the core proprietary applications supporting our Finance and Insurance business units. This request is to conduct an Independent Verification and Validation (IV&V) of the remediation effort. OPIC operates in the same manner as a lending and insurance institution. Contracting for an IV&V of core business processes is in line with OMB guidelines, and also with financial industry standards.

2. Hardware & Software Inventory: OPIC does not have an automated inventory system. As part of the Y2K effort, a complete inventory is required before assessing where the non-compliant parts are.

3. Adjustments to custom software programs: Over the years, numerous Access systems have been built as tools for the Business Units. In particular are the Finance Portfolio Tracking System (tracking the status of all Finance projects), the Finance Tracking System (for monitoring the compliance of finance projects), and the Insurance Forecasting System (forecasting exposure), among others. Most of these are affected with the millennium bug for two reasons. The first is that most are built in Access 2.0 that is a non-Y2K compliant version of Access, the second is the effect of the change in Wang data that is downloaded and entered into these systems on a nightly basis.

4. Ancillary affects of changes to corporate systems: Changing date fields in the ``Wang'' systems will have significant downstream effects. Wang data is loaded not only into the Access databases mentioned above, but also feeds into a process that manipulates data before feeding it into the accounting system. In addition, numerous end-user management reports are created using this data download. All of these downstream effects need to be addressed before the remediated Wang code is implemented into production.

5. Replacement of non-Compliant Personal Computers: OPIC has completed the inventory of desktop hardware.

6. Backfill of core systems support personnel: OPIC reassigned one of its top Computer Specialists, formerly in charge of all Wang software and hardware to lead its Y2K effort. However, his responsibilities for administration, hardware and software support for the Wang production code needed to be covered to allow him to concentrate fully on his new Y2K responsibilities. In today's market, IRM quickly discovered that his broad skill set could not be found in one individual and two contractors were required to adequately backfill his position.

7. Architectural Upgrades: At the end of FY 1998 end, OPIC had 23 servers in the computer room supporting a wide variety of functions. OPIC estimates that 18 of these 23 are not Y2K compliant. Instead of renovating each separate server, OPIC is taking a strategic approach to solving the problem.

potential for opic services

Question. What regions of the world do you believe that OPIC has the greatest potential to positively assist host countries as well as U.S. businesses? Are there additional steps that we should be taking to help these countries and businesses?

Answer. Throughout OPIC's history, the agency has helped America compete while supporting development and stability in strategic regions. All of this has been done at no cost to the U.S. taxpayer.

The projects assisted by OPIC in fiscal year 1998 will provide significant economic and social benefits for developing host countries as well as produce thousands of U.S. jobs.

The FY 1998 projects will generate 12,830 jobs in developing countries directly, of which 4,840 will be management and professional positions. It is estimated that the annual net effect on the host countries' balance of payments will be a positive $47 million. The foreign enterprises will generate $788 million annually in taxes and duties for the host countries. Once in operation, the projects will generate an estimated $1.2 billion in annual export earnings for the host countries.

In the U.S., the 1998 fiscal year portfolio of projects assisted by OPIC will result in significant economic benefits to the U.S. economy. A substantial portion of the initial procurement for OPIC projects will be supplied by American firms, resulting in an estimated $2.3 billion in U.S. exports of capital goods and services. In addition, the value of American materials and equipment required for ongoing operations is estimated at $500 million during the next five years. As a result of this level of initial and operational procurement from the United States, the projects will generate an estimated 34,459 person-years of direct and indirect employment for U.S. workers.

Looking ahead, we feel that OPIC will continue to play a strong and valuable role in mobilizing and facilitating the participation of U.S. private capital and skills in the economic and social development of less developed countries and areas, and countries in transition from nonmarket to market economies, thereby complementing the development assistance objectives of the United States.

We are particularly focused on providing assistance to those businesses eager to enter the Central American and African marketplaces.

Working closely with business leaders and Central American governments, we are aggressively targeting project opportunities in the

Hurricane Mitch impacted countries of Central America. Not only is this an important economic market for our businesses, it is critically important to provide capital to these countries so that they can rebuild their lives and economy.

Another important market is sub-Saharan Africa. Building on the leadership of the Congress and the Administration, OPIC has sought to open new markets for U.S. business while strengthening markets where we historically have been strong.

Passage of the African Growth and Opportunity Act by Congress would send a strong message to African leaders and citizens that Africa is an important partner for American business.

Likewise, quick enactment of the President's Central America supplemental will help lay a firm foundation for going forward in that troubled region.

Questions for the Record by Ms. Pelosi

vietnam

Question. When OPIC began programs in Vietnam last year, despite the serious worker rights problems there which OPIC acknowledged in its report of March 1998, you stated that covenants in OPIC insurance contracts and loan guarantees would include specific reference to issues such as the rights of association and collective bargaining and prohibition on forced or compulsory labor, etc. To date, how many contracts and guarantees have included these covenants? Does OPIC have plans this year to evaluate and monitor how these covenants are being enforced by U.S. companies in Vietnam? Do you plan to send OPIC staff to Vietnam to undertake these activities? Will you be obtaining input from outside agencies and NGOs?

Answer. OPIC has not yet issued any final contracts for projects in Vietnam, but two projects are under active consideration. Should OPIC enter into any final contracts, all of them will include covenants to ensure that the projects do not contribute to worker rights violations in Vietnam, as required by OPIC's statute. OPIC staff will monitor the projects when they are operational and will do so in consultation with outside agencies and NGOs with expertise in matters involving worker rights in Vietnam.

investment funds

Question. How were these funds initiated? Did OPIC respond to unsolicited proposals, or was there a competitive bidding process?

Answer. OPIC's investment funds program was created in 1987, as part of a Reagan Administration foreign policy initiative, to respond to the need for equity capital in regions or sectors in emerging markets and developing countries identified as U.S. foreign policy priorities.

OPIC's recent funds have been created in direct repsonse to Congressional mandates regarding Sub-Saharan Africa and the Caucasus region. If and when OPIC determines as a policy matter that a new OPIC-supported fund should be created, OPIC will select a fund manager in an open and competitive process. OPIC has established, and continues to refine, an open and transparent competitive selection process for fund proposals and fund managers. OPIC publishes a call for proposals for a specific kind of fund in a variety of business and trade publications and on the Internet. The call asks for proposals for fund management and fund strategy to address the priorities identified by OPIC. Proposers are required to submit a complete package of information that is then examined and considered by an evaluation panel.

OPIC's goal is to maintain a fair, unbiased process open to all qualified applicants that produces quality fund proposals with competent, experienced management.

Question. Does OPIC have a consistent policy on the degree of profit sharing each of the funds is required to return to OPIC?

Answer. OPIC's profit participation is an integral component of the fund structure and has evolved as structuring components have evolved. As the major components of structure of the funds program have become standardized so has the degree of profit participation. Presently the degree of profit participation varies between 4% to 6%, depending upon the level of OPIC's guarantee of debt used for leverage in the fund.

Question. During 1998 OPIC invested $60 million in a new private investment fund for the Caucasus to support free enterprise in Armenia, Georgia, and Azerbaijan. What is the status of investment in each of the countries from this fund? Is it aimed at any one sector? How can one fund operate in both Armenia and Azerbaijan simultaneously given the ongoing conflict there?

Answer. Originally, the responsibility for organizing an investment fund for the Caucasus was given to U.S.A.I.D.

In FY 1997, U.S.A.I.D. transferred to OPIC the funding resources to support this fund and asked OPIC to undertake the creation of such a fund. In response to Congressional priorities, OPIC increased the size of its commitment to the Caucasus Fund from $30 million to $60 million. On December 3, 1998 OPIC executed a finance agreement with the fund. The management of the fund has identified key personnel to staff their efforts in all three countries. Two offices have been opened in Tblisi, Georgia and Baku, Azerbaijan, and the management intends to open an office in Armenia shortly after they complete the raising of the equity capital and are in a position to begin investing.

The Caucasus Fund intends to focus on three primary sectors--agriculture, transportation, and real estate. The agribusiness sector will target projects in food processing and distribution--areas expressly encouraged by Congressional Committees. Other sectors of interest may include financial services and telecommunications. The fund already has several potential investments under consideration in the agribusiness and real estate/services sectors.

The fund has committed to invest a minimum of 20 percent of its total capitalization in each country. Each country will have its own office and professional staff. Where possible, the fund will seek investments with growth potential across industry sectors and geographic scope. Although this might be difficult initially, both governments have implemented fiscal and monetary reforms, are on record as favoring market-oriented economic reforms, and are expected to be supportive of private investment. Economicdevelopment and regional economic integration can help create common goals and provide incentives for cooperation at a political level.

Question. Where do you anticipate the new fund initiated in 1999 will be centered? What is the status of private investment funds in Africa?

Answer. The final selection of a fund manager for the new Africa infrastructure fund will be made in the next 2-3 months. The fund manager will determine where the fund's offices will be located.

OPIC has three existing private investment funds focused on Africa with $295 million in total capital. They are: Africa Growth Fund--$25 million; New Africa Opportunity Fund--$120 million; Modern Africa Growth and Investment Fund--$150 million.

The Africa Growth Fund has completed its investment phase and is

now seeking to realize values through normal divestment of the portfolio.

The New Africa Opportunity Fund has made four investments totaling approximately $31 million out of its available $125 million of capital. New Africa is still in the early phase of the investment cycle.

The Modern Africa Growth and Investment Fund has committed to one project and has several in the due diligence stage. It is in the very earliest stage of the investment cycle.

new countries--pakistan and azerbaijan

Question. Update the Committee on the status of new countries of operation this year--Pakistan and Azerbaijan.

Answer. OPIC programs opened in Pakistan in March, 1998, after having been closed since 1990 due to nuclear non-proliferation sanctions. OPIC closed again following the Pakistani nuclear tests in May, 1998, and re-opened again in the fall of 1998, when the President exercised new legislative authority to grant a one-year waiver. Since re-opening in March 1998, OPIC has not provided any support for investment projects in Pakistan.

OPIC programs became available in Azerbaijan in 1995. The FY 1999 Foreign Operations Appropriations Bill provides that ``Section 907 of the FREEDOM Support Act shall not apply to . . . any insurance, reinsurance, guarantee, or other assistance provided by the Overseas Private Investment Corporation. . . .'' OPIC in March 1999 approved its first project in Azerbaijan, consisting of political risk insurance for small business investors in an environment cleanup project in areas polluted by oil production.

Question. Explain how OPIC can enter into multiyear commitments in Pakistan given that legislative exemptions from sanctions was granted for only one year.

Answer. The nature of the OPIC programs is that they support long-term direct investment by making relatively long-term commitments. OPIC insurance contracts, for example, often extend for up to 20 years, and OPIC loan agreements often provide for loan disbursements over a period of several years, with repayments for up to 15 years thereafter. While OPIC has the authority to provide these kinds of commitments for Pakistan during the current one-year waiver period, OPIC will not enter into such commitments after the waiver period expires unless proper authority is in place.

In addition, OPIC will not enter into any commitments to support investment in Pakistan unless the normal worker rights, human rights, and environmental criteria are met that apply to every OPIC project. OPIC has not actually provided any commitments in support of investment in Pakistan in over eight years.

Question. What is the nature of demand in Azerbaijan? Are American oil companies depending on OPIC to finance the pipeline construction, or only selected elements?

Answer. OPIC has 14 projects registered for political risk insurance in Azerbaijan and six projects have expressed interest in obtaining OPIC financing, in the services, food processing, telecommunications and energy sectors. As the pipelines necessary to transport oil and gas out of the Caspian region will cost billions of dollars, OPIC insurance and financing are a key element in structuring financing for these projects, but OPIC will be one among many institutions participating in the financing and the provision of political risk insurance for these projects. OPIC financing can be used for all phases of the pipeline, not just construction.

Questions for the Record by Ms. Lowey

opic and small business

Question. I am very interested in what OPIC is doing to help small businesses gain access to emerging markets, and I hope that your small business initiatives will have demonstrable results. Could you expand upon what you are doing to reach out to small businesses and let them know how OPIC can help them? I frequently receive calls from the owners of small businesses in New York who are looking for assistance in breaking into international markets. And too often, when I suggest they talk to OPIC, they weren't aware that OPIC was a potential resource.

Answer. 1999 is the ``Year of Small Business'' at OPIC and a top priority is to expand outreach efforts. A Small Business Action Team was formed to implement a series of action steps to expand small business outreach and to serve as advocates within OPIC.

OPIC is reaching out to small and medium-size businesses that are seeking to invest overseas, but need help with political risk insurance or to cross the key-financing threshold. OPIC's award winning website contains a user-friendly small business page which is accessible to small businesses throughout the country.

OPIC also works with the other U.S. Government agencies, small business organizations, and state and local trade and commerce officials to ensure that small businesses are aware of the products, service and advice available at OPIC. OPIC sponsors and participates in seminars, forums, and conferences throughout the U.S. which are focused on increasing awareness of small and medium-sized businesses of the opportunities for overseas investment and how OPIC can assist them.

An important component in OPIC's small business outreach program is to identify the small business suppliers who are contributing to OPIC-assisted projects throughout the world. This outreach provides suppliers with an opportunity to learn more about their contribution to OPIC's projects and to utilize this opportunity to provide information about OPIC's products.

OPIC has a long-standing commitment to help small and medium-sized businesses participate in the opportunities offered by overseas investment. This commitment includes extensive outreach to small and medium-sized business as well as an effort to increase small business use of OPIC products. In fiscal year 1998, almost 30% of OPIC assisted projects were small businesses.

azerbaijan

Question. Can you update us on OPIC's activities in Azerbaijan? To what extent will you ensure that these projects are not supporting partners in Azerbaijan that have been obstacles to a resolution of the dispute between Azerbaijan, Armenia, and Nagorno-Karabakh?

Answer. OPIC's Caucasus Fund is in the process of raising capital in order to begin investing. On March 9, 1999 the OPIC Board of Directors approved a proposal to provide political risk insurance to its first project in Azerbaijan. The project is sponsored by a U.S. small business which will be engaged in environmental cleanup. OPIC supports U.S. private investment in commercially viable projects that contribute to the development of the host country and would not support a project that actively worked against a resolution of the Nagorno-Karabakh dispute.

Submitted to TDA

Questions for the Record by Mr. Lewis

Question. Mr. Grandmaison, while I am a strong proponent of overseas investment, U.S. business promotion and international trade, it appears that the U.S. Trade and Development agency, OPIC and Ex-Im Bank all have a very similar mission.

Am I correct in my assumption that all three agencies work closely together? Do the three agencies perform redundant functions? Do you believe that the Federal Government needs three separate agencies that perform similar functions? Is it feasible to collapse these three agencies into one? If not, why?

Answer. Without question, the three trade finance agencies work closely and cooperatively on a variety of initiatives and projects. Therefore, it is not inappropriate to examine whether consolidation could make them more effective. We have considered this issue several times, however, and continue to reach the conclusion that consolidation would not be feasible or desirable.

The primary policy rationale for consolidation is that a single entity would be more efficient and effective in providing government support to assist U.S. companies investing or exporting overseas. We believe that with one agency closely coordinating U.S. trade promotion efforts, there is a danger that the agency's mission would evolve into providing ``cradle-to-grave'' project support from feasibility study to project financing to trade financing to insurance. We believe that this would be a step in the wrong direction. Although a ``one-stop financing shop'' approach may appeal to some of the U.S. businesses seeking assistance, a closer look at the end result of such an approach reveals a fundamental philosophical defect. If the government attempted to provide such comprehensive assistance to U.S. companies, then companies need apply less of their own resources--both time and money--to pursuing overseas business. Currently, these programs leverage private sector resources; as a consolidated agency they might very well displace private sector resources. The overall strength of the programs would be reduced and the government would be providing precisely the type of ``corporate welfare'' to which both the Administration and the Congress are adamantly opposed.

In the case of TDA, for instance, rather than providing a small amount of money to fund a feasibility study that will better position an American company on a project to be financed by a multilateral development bank or the host country, a consolidated entity might be expected to provide not only the feasibility study grant but also the project financing, regardless of other available financing sources. Unless the budget for trade promotion activities grows dramatically, this approach would result in fewer U.S. companies having access to the available government assistance. Though the benefits for some would be more complete, those benefits would be monopolized by the few. The new entity could find itself in the unenviable position of picking relatively few overseas projects to support, start to finish, and relatively few U.S. firms to undertake these projects. Understandably, U.S. companies chosen as recipients of seamless government support from the beginning to the end of the project would find this approach more attractive--but from a government policy perspective, we do not believe this is the direction to go to maximize the impact of public expenditures in the export promotion field.

As the TDA program currently operates, government funds are able to leverage private sector resources in winning overseas contracts. Assistance is targeted to business opportunities where it can make a difference for U.S. firms in beating the competition. In the proposed

arrangement, the government's ability to leverage additional non-government resources would be impaired. The emphasis would shift from providing a critical intervention to hand-holding throughout the entire process.

We also seriously doubt that consolidation would in fact create a more efficient and cost-effective agency. Among the assumptions that have led to consideration of a proposed consolidation are: the three agencies have similar mandates, the agencies duplicate functions, the same companies work with all three agencies, and that current levels of coordination among the agencies do not meet the needs of U.S. companies. In fact, the mandates of the agencies differ significantly: Ex-Im finances U.S. exports; OPIC helps U.S. investors; and TDA gets U.S. companies into infrastructure projects. Also, in practice, few companies work with all three agencies as each agency provides a specialized service that benefits a distinct constituency. As a result, the constituencies, the approach, and the organizational culture of these agencies differ. Forcing them to merge together would result only in confusion and inefficiencies. Therefore, consolidation would only work if the agencies' mandates were drastically changed, and we do not believe that is warranted.

Nor would a proposed consolidation result in significant administrative savings by staff reductions or combining certain functions. We do not believe that the staff of any of these three agencies is currently underutilized or that redundancies in fact exist. To the extent that staff in each agency can take on entirely new functions and operate more effectively, those positions should be eliminated or changed for the sake of good government regardless of whether the agencies were consolidated. With respect to TDA in particular, we believe that our 41-person staff is already operating efficiently and would not achieve any perceived savings by joining the other two agencies. In fact, one area inwhich there would be a clear cost increase for TDA would be in relocation; any physical move from its economical Rosslyn office space would be costly for TDA.

Finally, pulling TDA under the umbrella of a larger bureaucracy would inevitably result in the loss of decision-making flexibility and the loss of autonomy and ability to respond quickly (which is what we believe gives the program its edge). In practice, getting a feasibility study grant could be perceived as the first step to getting a foot in the door for further government financing, placing more pressure on TDA to approve funding requests from companies which now currently pay for their own feasibility studies and diverting funds from projects where it could make the difference for U.S. involvement. Ultimately, as a grant-making entity within a consolidated operation, TDA's effectiveness would be diminished and would become a service bureau for the newly created Ex-Im-OPIC hybrid.

As currently structured, TDA's strength lies in its ability to provide foreign project sponsors with U.S. engineering expertise, and to leverage often non-U.S. sources of financing (World Bank, regional banks, country's own resources) for implementing the project and procuring goods and services from U.S. companies. Therefore, we do not believe that any real savings would be realized from a consolidation, nor do there appear to be any specific policy reasons warranting such an action.

It is important to note, however, that a high level of cooperation exists--not only between the three trade finance agencies, but also with the Departments of State, Commerce, Energy, and Transportation. We believe that the benefits derived from these relationships are the

result of the fact that our specialized staffs complement each other, offering different perspectives and information, rather than redundant viewpoints.

A clear example of the cooperation between the trade finance agencies is the new Caspian Finance Office established by the three agencies and operated out of our Embassy in Turkey to promote development associated with the oil and gas industry in the region. Despite our close relationship, however, the agencies found it necessary to send staff representing each agency to pursue each agency's unique mission.

In some instances, however, closer collaboration does make sense, and the three agencies are open to combining resources and efforts when they do. For example, the three agencies developed an outreach program in Africa this past year in which a TDA staff member was trained in the Ex-Im and OPIC programs so that he could promote all three agencies during a three month business development mission in Southern Africa. This individual's job was to meet with as many U.S. and African project sponsors as possible, present the programs of the three agencies, and be available to support agency-specific activities being led from the U.S. Each of our agencies generally relies heavily on our Embassies and the Foreign Commercial Service for this type of marketing, but in this case it was worthwhile to have a more knowledgeable program officer in the field. So, while this was an extremely effective marketing tool, there was never any consideration given to consolidating all of our activities in South Africa because each of our objectives in the country--and the process of reaching those objectives--is so different.

Question. How much of TDA's core budget was augmented through transfer of funds from the Freedom Support Act, the Support for East European Democracy Act, and other sources in FY 1998? What do you project these transfers will total in FY 1999 and what do you expect for FY 2000?

Answer. In FY 1998, TDA received $18,521,000 in transfer funds. In FY 1999, we anticipate receiving $17,083,000. With the completion of the South Balkan Development Initiative (SBDI) and the originally committed funding for the TDA effort in Bosnia, the only possible SEED Act transfer in FY 2000 might be up to $2 million to continue investments in Bosnia, although there has been no decision on this issue. As a result, the only significant transfer we currently anticipate for FY 2000 is approximately $6 million in Freedom Support Act transfers.

The transfers are broken down as follows:

	Fiscal year		
	1998	1999	2000 (anticipated)
Freedom Support Act.....	6,000,000	7,800,000	6,000,000
SEED-SBDI.....	8,000,000	8,000,000	0
SEED-Bosnia.....	4,000,000	1,000,000	?
Other.....	\1\ 536,000	\2\ 283,000	?

\1\ FY98 Other included $521,000 for Egypt Business Outreach and $15,000 for Europe/NIS Multi-Agency Training Program in Istanbul (OPIC).
\2\ FY99 Other included $273,000 for Caspian Finance Center and $10,000

for Europe/NIS Multi-Agency Training Program in Istanbul (Ex-Im Bank).

Question. Your FY 2000 presentation describes ``Seizing Regional Opportunities'' and TDA's ability to help U.S. businesses capture market share in Africa, Europe and Asia but does not mention Latin America. Why isn't Latin America part of the Seizing Regional Opportunities program?

Answer. The discussion of ``Seizing Regional Opportunities'' was included to show that TDA is a nimble and dynamic agency, capable of quick responses to changing realities in the global economy. ``Seizing Regional Opportunities'' is not a formal program, but rather an overall TDA strategy. The descriptions of current activities in Africa, Asia, and Europe show how TDA is responding creatively to the varying economic challenges presented by these regions.

Our use of these illustrative examples, therefore, is not indicative of major shifts in funding for these regions away from other regions, such as Latin America, the Middle East, the Caspian Region or the New Independent States. TDA is structured regionally, and the efforts of our Latin America team have led to a particularly robust program in that region. Because of the rising level of demand for our program in Latin America, our budget for the region increased roughly $1 million in FY 98, and is expected to increase another $1 million in FY 99. In fact, our Latin America program receives more funding from our core budget than any other single region.

Question. I note that in 1998 TDA invested $10 million in Latin America and the Caribbean. What do we have to show for this investment? What does TDA plan to invest in this region for 1999 and 2000? Does it make sense to focus more of our resources in this region?

Answer. TDA's program is inherently one of long-term investment. Because we are involved at the earliest planning stages of a major infrastructure project, it frequently takes years to determine whether a particular investment is going to pay off in follow-on exports. We do, however, have an example of a FY98 investment of $1 million that is already paying off handsomely.

In FY98, TDA invested $1 million in Argentina in support of a consortium led by the New York-based Odgen Corporation in a competition to become part owner and operator of 33 airports in Argentina'a national airport system. The Ogden-led consortium was successful in winning this heavily fought battle, and their implementation of this project could prove to be one of TDA's most important success stories ever: the capital improvements of the airports could represent more than $1 billion in potential exports over the next 30 years. In the first 30 months of the concession, U.S. exports could reach $200 million. Without TDA's participation, it is possible that these exports would have been won by our foreign competitors.

Another FY98 investment that we expect will generate new projects was a TDA conference in Atlanta focused on Latin American projects. At this conference, 600 registered participants from the United States and South America discussed the 128 Latin America projects presented. These projects represented an export potential of $20 billion. The conference culminated in the scheduling of 1,200 one-on-one meetings between the U.S. companies and the project sponsors. Overall evaluations by the participants indicate that this conference was a resounding success, and has led to an untold number of potentially lucrative business connections. TDA's evaluation team will continue to track the results of this conference to determine the value of exports generated from the

conference, although, again, most will not be quantifiable at this early stage.

As a demand-driven agency, TDA roughly allocates its budget along regional lines, while retaining the flexibility to shift resources to and from regions to reflect current demand levels. FY98 saw an increase of over $1 million over the FY97 level for Latin America. In FY98, we allocated $10 million, whereas the funding level in FY97 was just under $9 million. We are currently projecting an increase in FY99 to $11 million, and expect a roughly consistent allocation for FY 2000.

Our program in general is results-oriented, with concrete measurements to demonstrate our success. The best indicator of our success is the export multiplier, the amount of exports facilitated by every dollar TDA invests. In 1993, our export multiplier was 25:1, in FY98 that number had risen to 32:1. Increases in our investment in the Latin American region demonstrate that we believe that the tremendous level of infrastructure investment occurring in Latin America has provided and will continue to provide excellent opportunities for U.S. exporters.

Questions for the Record by Mr. Kingston

Question. Can you comment on the impact of the Asian financial crisis on the volume of activity at TDA? Has this crisis increased costs for U.S. businesses and driven up the amount of assistance, advisory and financial, delivered to customers by your agency?

Answer. The volume of requests for TDA's assistance has not been significantly affected by the Asian financial crisis that began in July 1997. Our activities in Indonesia, Thailand and Malaysia decreased some as these governments put many public sector investments in transportation and energy on hold. However, TDA's increased activities in the Philippines and Vietnam have offset much of this decline. At the same time we witnessed an increase by the governments to transfer the rights to develop and finance water and waste water projects to the private sector. As a result, we are now investing more in the private sector than in years past. We also have been supporting more World Bank and Asian Development Bank projects to ensure that U.S. companies win their share of export opportunities during this time period.

We are helping to design several information system projects that will lend support to the financial recovery process. In Vietnam, for example, we have approved grants to help improve the financial sector. We are also seeking to position U.S. companies in helping to modernize Asia's banking and financial sector, which currently utilizes badly outdated methods for tracking financial transactions. Towards this end, we are hosting a regional conference on bank automation in March to enable top U.S. information management specialists to meet directly with Asian banking and financial officials. American businesses are well-positioned to offer both consulting services and information management equipment to help Asia address its problems in the banking and financial sector with high-tech solutions, thus contributing to the recovery of Asia's economy.

Question. What plans does your agency have for Russia? Have you written off any or all activities with Russia due to its insolvency and rampant crime? What might your agency do to assist U.S. companies to help lift Russia out of its quagmire? Or, should we force Russia to fend for itself?

Answer. Since we initiated our program in Russia in 1991, TDA has adhered to the approach of being demand-driven in our support of

project opportunities. Consistent with this philosophy, we will continue to support commercial initiatives in Russia as long as U.S. companies are willing to pursue feasible business endeavors. Changes in demand in Russia for TDA funding during FY98 provide clues as to how the U.S. business community is responding to recent events there, which is a good indicator as to the level of support we will commit to Russia. While the beginning of FY98 saw a steady increase in demand for TDA funding, the deteriorating economic situation in mid-summer led to a slowdown in demand. Towards the close of FY98, however, immediate concern over the recent economic crisis appeared to have lessened somewhat, and TDA witnessed a moderate increase in proposal submissions. We have seen a clear trend towards submissions from medium and large U.S. companies which have adopted a long-term investment strategy and have the determination and resources to weather Russia's political and economic fluctuations. Therefore, despite recent events, TDA anticipates that it will continue to share the risk with U.S. companies as long as there is demand for our assistance in Russia.

Question. Could you comment on how your activities in Brazil might be impacted if the local economy and currency continue to slide downward?

Answer. In FY98, TDA's activities in Brazil represented approximately one-third of its investments in Latin America. TDA expects to invest a similar amount in Brazil in FY99 in spite of the economic downturn. Many Brazilian analysts predict that it will take at least six months for the Brazilian currency to stablize as the necessary reforms are implemented by the government and the current account balance improves. It is difficult to predict at this stage whether there will be a significant worsening of the Brazilian economy. However, if this were to occur, due to the nature of TDA's program, TDA projects would probably primarily be affected by delays, with no significant overall decline in TDA activity in Brazil.

Brazil is the largest market in Latin America and has a tremendous demand for investments in new infrastructure, including power, transportation, water and sanitation, and telecommunications. Infrastructure projects are typically implemented for use over the long term (20+ years), and are therefore not affected in the same way as product sales of consumable goods. Although some projects may be vulnerable to delays or cancellation due to investors' concerns about the market, overall viability for most projects will not be permanently affected. Given TDA's involvement in the early stage of the project cycle, it is expected that there will be a continued demand for TDA funding for priority projects, the planning of which must move forward in spite of the economic slowdown.

Question. There is a great deal of concern in Congress right now that some countries suffering in the financial crisis are dumping cheap products in the U.S. to escape their economic problems. What role, if any, does your agency have in causing this problem? Will you curtail your export or direct investment to halt such dumping of products? Is greater financing of your agencies warranted if this problem persists?

Answer. The goal of TDA is solely to promote the export of U.S. goods and services to major infrastructure projects in the developing world, thereby creating jobs in the U.S. Therefore, our program is unrelated to the trade practices described. In fact, the recent decline in exports and the growing trade imbalance caused, in large part, by the global financial crisis provide a clear rationale for increased funding for TDA and the other trade finance agencies whose goal it is to promote U.S. exports. TDA's success in promoting exports is

demonstrated by its export multiplier. This statistic shows that since TDA's inception, every dollar invested by TDA has spurred $32 worth of exports. Therefore, programs such as TDA's are part of the solution, not the problem, of the trade imbalance.

Questions for the Record by Ms. Pelosi

Question. TDA has requested an increase of $4 million from $44 to $48 million. Can you comment more specifically on which regions of the world would benefit from such an increase?

Answer. TDA is a demand-driven agency. Although we are organized by region, and allocate our budget on this basis, funding decisions remain fluid so that we can respond to economic events as they unfold. Patterns of growth in some regions, countered by financial uncertainties in other areas, can give early indications of where extra resources might be devoted.

Africa, for example, is experiencing a period of rapid development. Our budget for Africa for FY99 has been entirely reserved or obligated only one third the way through the fiscal year, whereas last year's budget continued to meet demand two-thirds the way through the fiscal year. Though this is not a scientific measure, it does provide a rough idea of the level of demand we are trying to meet with a limited budget.

While at first glance one might think that extra resources for Africa could be easily shifted from our Asia program due to the Asian financial crisis, this does not hold up to closer scrutiny. While there was a decrease in demand for our activities in Indonesia, Thailand and Malaysia, it was largely offset by increased activities in the Philippines and Vietnam. Furthermore, much of the infrastructure investment originally contemplated by the public sector in Asia has simply shifted instead to the private sector, a trend toward privatization that TDA encourages.

Latin America presents a similar situation. There is tremendous demand for new infrastructure projects in the region. Although financial uncertainty in Brazil, the largest recipient country in the region, may cause investors to take a slower approach, we do not predict any significant decline in demand. In fact, because infrastructure projects are both long term and necessary components of development, they can typically proceed in a financial environment that would be more hostile to other types of exports.

Therefore, because there is increasing demand for our programs in the southern hemisphere, particularly, and no lessening of demand for our activities in Asia and elsewhere, TDA currently has no choice but to turn down viable projects when confronted with budget limitations. A funding increase for FY 2000, however, would allow us to meet some of this increasing demand, thereby taking early steps to level the playing field in these hotly contested emerging markets against our foreign competition.

Question. Describe the level of demand for programs in Africa, and how an increase in funding would affect projects in that region.

Answer. Demand for TDA's programs in Africa has been growing rapidly, both in terms of the number of countries where TDA is encountering requests for support and in the types of projects for which support has been requested. In fact, only one-third the way through this fiscal year, TDA had already reserved and obligated 100% of its allocated budget for Africa, whereas our budget in FY98 was not obligated until June last year.

Some of the increase in requests for TDA support are certainly due to an aggressive marketing campaign in key countries in the region. These marketing efforts were highlighted by the temporary assignment of a TDA Country Manager to Southern Africa for three months last fall, in addition to the Agency's Director and Africa Regional Director both traveling to Africa twice in the last year. Largely through these efforts, TDA has been successful in expanding our Africa program beyond just South Africa--which is some cases is now a competitor for projects in the region. In the last few years, TDA has worked with 15 African countries in addition to South Africa, and also with the Southern Africa Development Community (SADC).

Apart from TDA's efforts to promote an expanded program in the region, the rise in requests for support is also a natural offshoot of expanding stability and market-based reforms throughout the region, and a growing resolve on the part of African public and private sector officials to find a way to move their priority projects forward. The American business community has also become more aware of the opportunities this market represents, while at the same time the financial community is becoming better equipped to evaluate and approve investments in infrastructure and industrial projects in Africa.

This last point is key to the appropriateness of TDA funding for the region. While traditional government and multilateral development bank projects continue to account of the bulk of Africa's infrastructure programs, more and more privately-driven projects are being considered. This trend toward private sector projects and away from public sector projects is consistent with the significant worldwide shift towards the private sector that TDA has been encouraging in recent years. As African and U.S. companies and private financial institutions consider new ventures, the availability of TDA support may play a crucial role in their successful development by U.S. firms. Additional TDA resources in Africa would therefore likely be absorbed by strong new growth in privately financed projects.

Question. Does TDA have any role in the rebuilding efforts from the devastation of Hurricane Mitch in Honduras and Nicaragua? If not, why not?

Answer. TDA expects to become increasingly involved in evaluating infrastructure projects in Central America necessitated by the effects of Hurricane Mitch. While we do not have adequate personnel or resources to devote to the type of sweeping review that is required at this stage of a situation of such massive proportions, we will rely heavily on the findings from work performed at this early stage by the Department of Commerce, the Agency for International Development, the World Bank, the Inter-American Development Bank, and others to help us identify projects, particularly ones in which we could facilitate U.S. corporate participation. Once leads have been identified, we will work expeditiously to ascertain which ones might benefit from TDA and U.S. business involvement.

Questions for the Record By Mrs. Lowey

Question. As you know, I strongly believe that projects that bring governments and people together in the Middle East are the key to real peace in that region. I know that TDA has been involved in several Jordanian-Israeli projects. Last year, we spoke about a TDA feasibility study for a fiber-optic telecommunications network. I also understand that TDA has worked on a cooperative airport project between the Jordanians and the Israelis. Could you talk a little bit about Middle

East regional projects with which TDA has been involved and how these projects promote economic cooperation in the region?

Answer. The examples which you raised, the fiber-optics and airport projects, are good examples of regional feasibility study projects funded by TDA. Although, TDA-funded grants are typically aimed at specific projects in a country, both the fiber optics project and the airport project were conducted through grants to Jordan with requirements for equal Israeli participation. By assisting in the development of a country's infrastructure, TDA helps make the country more capable of participating in the regional efforts described in your question. The Jordan Civil Aviation Authority, for example, is committed to improving air safety, ground efficiency, and security at the Aqaba International Airport. Reaching the most recent ICAO-level safety standards will allow the airport to receive larger planes, thus increasing the influx of foreign tourists and tourism income. As designed by the TDA study, the joint use airport will enable the use of wide body jets, the deliver business and tourist passengers to both countries. The improvements will also demonstrate to the Israelis, Jordan's partner in the ``Aqaba-Eilat Peace Airport'' project, Jordan's commitment to the safety of Israeli-bound passengers traveling through Jordanian airports. The TDA-funded ``Jordan Border Security Modernization Feasibility Study'' is another project supporting that objective.

The airport project is an excellent illustration of your view that Middle East projects which bring government and people together are the key to real peace in the region. As a partner in this project, TDA has participated at a number of levels: funding the feasibility study conducted by Lockheed-Martin, sponsoring reverse-trade missions to the United States and conferences introducing the civil aviation authorities to U.S. technology, and, most recently, providing technical assistance in the development of a financial and legal joint management plan for the implementation of the pilot project. While there have been delays, the project has moved forward, and over the past year, the Israelis have allowed an increasing number of Israeli bound fights to land at Aqaba's airport under the control of Jordanian air traffic controllers. This leap of faith on the part of both governments was perhaps unimaginable only a few years back. The goal of the ongoing financial project, which will establish the guidelines for management and revenue-sharing, is to secure permanent status for this pilot project. Additionally, the continued involvement of TDA and the U.S. State Department (which transferred Peace Process funds to TDA for this project) keeps both parties at the table, communicating about the relationship. For political and economic reasons, we are still a long way from achieving our goal, but every step gets us a little closer.

TDA is always open to new projects which present opportunities not only for U.S. commercial success but also to those which have a positive impact on the Middle East Peace Process. The urgent need for the development of the water sector (clean water supply for both residential and commercial use) is an example of a common thread running across all of the countries in the region. While TDA is not a policy-making agency, it is clear that assistance in this sector could advance the goal of economic cooperation in the region. Recognizing this, last year, the U.S. Congress allocated $50 million earmarked for water projects in Jordan. Similar funds have flowed from multi-national institutions.

For its part, TDA is pursuing a number of Middle East/North Africa-regional water-related projects: We recently, for example, signed a

grant with the Jordan Phosphate Mining Company for a feasibility study for a $15 million project which will help to reduce the Eshidiya mine's demand on groundwater resources and limit its impact on the country's water system. Conferences are another example of TDA's regional efforts, both in the Middle East and elsewhere. TDA will host an Africa and Middle East regional water projects conference in Fall, 1999, to promote U.S. company involvement in the development of these important projects. The heads of the water authorities of most of the Middle East/North Africa region countries will be invited to present their priority water-sector projects to the U.S. firms which can move their projects towards implementation.

Thursday, March 25, 1999.

AGENCY FOR INTERNATIONAL DEVELOPMENT

WITNESS

BRIAN ATWOOD, AID ADMINISTRATOR

Mr. Callahan's Opening Statement

Mr. Callahan. Good morning. Today the committee will hear from Mr. Brian Atwood, Administrator of the Agency for International Development, about the President's, and I assume his, request for fiscal year 2000 for development and humanitarian programs.

Brian, we welcome you once again before this committee. We know that you have been nominated by the President to serve as the U.S. Ambassador to Brazil. So this in all likelihood, if the Senate has any wisdom, which they do, may be your last appearance before this committee as AID Administrator. From now on you will be lobbying to Chairman Rogers trying to get some money to improve your embassy, which he probably will give to you.

Mr. Atwood. Right.

Mr. Callahan. We have always been very open and direct with each other. That is why we can have this frank dialogue this year about your budget request. For your programs under the jurisdiction of this subcommittee, the President is seeking more than an $800 million increase, increasing it to $14.5 billion. Within this total, AID development programs would increase more than $238 million above our fiscal year 1999 bill.

It appears that a good deal of this increase is to honor commitments made by the President and others during this past year's globetrotting. I remind you that this committee's responsibility is not to fund every promise made to foreign leaders by senior administration officials. It is not necessarily what this committee might intend to do.

I do not understand how the President expects Congress to fund this overall budget increase. The Budget Committee last week proposed slashing international affairs spending to about 16.4 billion. I understand that during the past few days they have even suggested that we cut it another billion, which is going to put it, if that is the case, about $3 billion below last year's level.

As you know, foreign aid is not very popular in Mobile,

Alabama, or many other places. So it is unlikely there will be an outpouring of opposition to the budget caps that exist in current law. And since saving Social Security first is a mantra being chanted at both ends of Pennsylvania Avenue right now, this subcommittee will likely be required to recommend a bill that is considerably less than current year levels of spending. Therefore, the administration had better let this committee know what its true international spending priorities are; otherwise it will become our responsibility to pick and choose where to make the necessary cuts to meet the appropriation allocation which will be given to us by the full committee.

We don't want to do that. So we are going to ask the administration to assist us, which is basically what we are doing during the 5 years that I have been Chairman of this committee, providing you with as much flexibility as we possibly can, yet still having to live within the caps that will be allocated to us.

I note that in reviewing the fiscal year 2000 request, it appears the White House has sought to increase just about every foreign account, with one rare exception, UNICEF. I am astonished that the President has selected this program, which has done great things for suffering children worldwide and which enjoys broad bipartisan support here on Capitol Hill. That is the only program in our jurisdiction that he is proposing to cut.

You and I have worked well together during the past 5 years. We have cooperated to create a Child Survival Account and have dedicated sufficient resources for the needs of children worldwide. We have joined the fight against polio and other infectious diseases. We have both opposed earmarking in the bill, so you have had, as I said, much more flexibility. And while I have every confidence in your personal good intentions, significant management problems still persist within AID.

According to your inspector general, AID's new management system still cannot account for most of the Agency spending. This failure has prevented this committee from receiving accurate or timely information regarding AID obligations, making it nearly impossible for us to track the expenditure of billions of dollars in taxpayer funds. Further, AID lags behind most other Federal agencies in achieving Y2K compliance. Until these problems are resolved, this committee will view with skepticism the accounting and budgeting information received from USAID.

I want to touch on one final point before I recognize Ms. Pelosi for her opening remarks. Last week Treasury Secretary Rubin dedicated much of his testimony before this committee to the issue of unserviceable debt incurred by Third World governments and the urgent need to write-down these bad loans. In essence, the Secretary's remarks call into question the entire mechanism of foreign aid lending for the past 40 years.

I agree that many developing nations, through a combination of corrupt practices, incompetence and mismanagement, are teetering on bankruptcy. Yet today you will present AID's plan to launch a new loan program. It makes no sense to me, while the White House and Treasury argue that these poor countries must be rescued from the brink of bankruptcy due to decades of

unsound lending, and meanwhile AID hopes to extend new loans to developing companies whose ability to repay is in doubt.

We have an uphill battle, Brian, as you and I have discussed privately, convincing me of the need for USAID to become a participant in this type of new activity.

[The statement of Mr. Callahan follows:]

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Mr. Callahan. Now I will recognize Mrs. Pelosi.

Ms. Pelosi's Opening Statement

Ms. Pelosi. Thank you very much, Mr. Chairman. I, too, am pleased to welcome Mr. Atwood here today, which we have said--I have thought this before, but I think it is real now--may be his last appearance before this subcommittee and will probably be his last appearance as AID Administrator, in any case.

I want to compliment Mr. Atwood both for the job that he has done at USAID and on his perseverance in staying on the job for as long as he has in this time of difficult fiscal challenges. I know he has had many opportunities to leave before, but I think he recognizes, as do the rest of us, that his leadership was necessary at USAID.

Everyone has benefitted from his service. I am grateful he has remained as long as he has, and I know that he will be a great Ambassador to Brazil. And we certainly look forward to visiting him there, don't we, Mr. Chairman?

Mr. Callahan. We certainly do.

Ms. Pelosi. As we all know, AID manages over $7 billion in foreign aid funding, which includes everything from ESF to Israel and Egypt, to providing medicines to starving children, or developing solutions to the global crisis in HIV/AIDS. With such a vast mission, it is remarkable that any one agency can manage it. It takes great leadership, and Mr. Atwood has provided that.

In our travels, Mr. Chairman, and in my travels in other committees, I have seen AID in action in the field. I have to say that its employees are extremely dedicated, hard-working, and trailblazers in development work throughout the world.

With the end of the Cold War, AID's challenge expanded first into Eastern Europe and then into the former Soviet Union. As the demands, Mr. Atwood, on your mission continue to expand, in fact become more complex, it is my hope that we can preserve AID as the premier development agency in the world.

Few people realize the fact that AID has paved the way throughout the world in developing on-the-ground solutions to seemingly intractable problems. Other donors can in some cases make the case that they do more financially in relation to their populations. They may say the U.S. does not contribute its fair share. The fact is that no other country even comes close to the U.S. in terms of putting well-trained, dedicated people on the ground in developing countries to solve problems working hand-in-hand with the people of these countries.

That is why in my questioning I am going to have some questions about cuts in administrative funding for AID, because I think that we have to have appropriate and adequate

administration from here to be able to exploit in positive ways the many talents of our people out there.

As the international financial institutions increase their role in financing projects focused on poverty alleviation, they are increasingly looking to AID for models and lessons learned. In many countries, AID personnel are the only force taking pains to coordinate assistance programs among donors.

I have taken the time to bring this out today, Mr. Chairman, because it is often an aspect of our foreign aid program that is overlooked. In addition, and more to the point of budgets, AID's viability is threatened today by the continued downward pressure on foreign aid budgets, and specifically more downward pressures on AID's operating budget. As I mentioned, it is my hope that we can work this year to find a solution to this problem. Without a viable delivery capability, all assistance we provide could be wasted.

Finally, Mr. Chairman, while I am confident the Appropriations Committee will make up its own mind on allocation for foreign assistance, I fear the budget resolution under consideration today, if realized, would devastate foreign aid programs. If the numbers contained in the Republicans' budget resolution become reality, AID's budget in particular would be devastated.

I will pursue this in detail in my questions today and attempt to get a clear illustration of how such a scenario would affect how we handle child survival, infectious diseases, education and environment programs, and I look forward to hearing our witnesses.

But I want to make a comment following up on something you said, Mr. Chairman, when you mentioned the unpopularity, the supposed unpopularity, of foreign aid. I know you speak with great authority for your own district, and I am sure that that is the case, but that being the case there, I think it behooves the President to inform the public in a more direct way, and not in a time of crisis, about why it is important for us to have the financial resources to match our leadership role in the world.

Many of us are very sad, I am sure everyone is, that our young people are in harm's way now because of the situation in Kosovo. I support the President's decision. I think it was a courageous one, because it is not going to be an overwhelmingly popular one. But these situations hopefully could be avoided if we had a better appreciation, even in our own country, of earlier, earlier, earlier interventions into these situations.

I think that NATO needed to be rescued once again, but in any case, the role of the United States is preeminent, and we have to face that reality. I am a broken record on this subject, but I was there as a student hearing President Kennedy's inaugural address when he made his famous statement, ``Citizen's of America, ask not what your country can do for you, but what you can do for your country.'' Everybody knows that statement. But I don't know that everybody knows the very next sentence, but I know you do, Mr. Chairman, because I say it every time our bill comes to the floor. The very next sentence is, ``Citizens of the world, ask not what America can do for you, but what we can do, working together, for the freedom of man.'' And in my view, that should be as prominent a

statement as the first.

They certainly are related, because we reap the benefit in our own country of what we do internationally. I am very disappointed in the numbers that we are talking about as far as the budget is concerned, and I hope that at the end of the day, we will have at least enough money to modestly live up to our international role.

But I think it is going to take a great deal of leadership on the part of the President to educate the American people more fully on why this foreign assistance is so necessary, why it is in our national interest, and to put it in some perspective, that it is less than 1 percent of our Federal budget.

And with that, I join you, Mr. Chairman, in welcoming Mr. Atwood and again thank him for his leadership and welcome his testimony. Thanks, Mr. Chairman.

Mr. Callahan. We thank you.

[The statement of Ms. Pelosi follows:]

[GRAPHIC(S) NOT AVAILABLE IN TIFF FORMAT]

Mr. Callahan. You mentioned a possible CODEL to Brazil. Mrs. Kilpatrick and I yesterday on the floor discussed this CODEL to South America, and especially to Brazil, and she and I discussed the possibility that we ought not invite those of you who chose to speak against the proposal I had on the floor yesterday about callable capital. So Mrs. Kilpatrick is in; you and Mr. Sabo are not.

Ms. Pelosi. I hope you don't go--even if I am not on the trip--before Brian is down there.

Mr. Callahan. I am not going to go before Brian is down there.

Brian.

Mr. Atwood's Opening Statement

Mr. Atwood. Thank you, Mr. Chairman. And I thank you very, very much for your kind words and those of Ms. Pelosi. I think both of you know that the feelings are mutual. I have been very fortunate in the past 6 years. First, the people of USAID themselves have been through a lot, but they continued through all of the changes that we put them through to produce excellent work. They made me a credible witness when I claimed that our Agency was absolutely essential to our national security.

I was also very, very lucky here on Capitol Hill. Little did I know that a Congressman from Alabama who never voted for foreign aid would become such an effective chairman. Your colleagues trusted you so much, and they passed your bill a few years ago by the largest margin ever. Even more important than that, Mr. Chairman, you have listened to my problems privately, you have given me good advice, and you have helped me when there was no gain for you in doing so. So I thank you very much for your support and for your friendship.

I was always blessed to have the support and friendship of Nancy Pelosi. She is an important voice in this Congress, and when she speaks out on human rights in China, or HIV/AIDS, or

the Central American tragedy, as she did yesterday, or women's rights, or other issues, people on both side of the aisle listen.

I was also very fortunate as well to have had had the leadership of Bob Livingston and Dave Obey. To me they represent the best of Congress. They came at politics and at issues from the opposite ends of the spectrum, but they came together to legislate, and they came together as personal friends. Both served as Chair of this subcommittee, and both understood why the foreign operations appropriation was so important to our country.

I will personally miss Bob Livingston a great deal, and I told him so in a letter when he left the House. He would have had made a fine Speaker.

Mr. Chairman, it seems like ancient history now, but USAID was a management nightmare when I started back in 1993. The Bush administration appointed a commission, the Ferris Commission, that virtually called USAID a basket case and made dozens of recommendations for change. I used that report as a blueprint, and in the first 2 years we reorganized, reoriented the people in the systems of USAID, and made the organization focus on results. When we briefed the Ferris Commission on the changes a few years later, they were impressed and said so publicly.

I believe then, and I believe now, a badly managed foreign aid program gives too many people an excuse to vote against us. We haven't entirely eliminated that excuse, I admit, but we are no way near as vulnerable today as we were 6 years ago. Six years ago we couldn't tell you how many people we had working for us. We couldn't produce an annual financial statement. You wouldn't have even asked us for this information back then because you knew we couldn't give it to you.

Today we can respond to your requests, but it still takes us much too much time, as you indicated in your opening statement. We made a good faith effort to create out of whole cloth literally a single new management system that would enable us to track financial, budget, results and procurement data. That system is in use today in Washington. It has replaced one of our old, inaccurate legacy systems. It is better than what we had, but it is not accurate enough and fast enough to spare us the work of having to check what it tells us, which is why you have such a hard time getting information on a timely basis from us.

Still it was not a waste of time or money. We would have continued to waste taxpayers dollars if we had not tried to change the old systems. We are today building on what we have learned, and we are on the right course to achieve the system we need. My successor will be able to take credit for finally fixing the problem that has plagued us for years, so good for him.

Mr. Chairman, when I started this job, I said that if I couldn't convince my mother to support foreign aid, I would have failed. I am pleased to report to you today that thanks in part to you, my mother is now actively defending the foreign aid program. Six years ago I am sure I was an embarrassment to my mother. She never told me that, but she would tell me about her friends' sons and daughters, they were in business, they

were doctors, they were lawyers, they were teachers. I would just imagine how she was describing me: Well, my son gives away our tax dollars to foreigners.

Today, she proudly tells her friends that her son's Agency saves millions of children a year with the Child Survival Account Congress gives him. She tells them that I am fighting against diseases like AIDS and TB and polio.

My mother lives in Florida in the winter, and she and her friends have become very worried about the increase in hurricanes and tornadoes and forest fires that Florida has experienced. She doesn't really believe there is a scientifically proven connection between this bad weather and global warming, but she reassures her friends that USAID is doing something to help.

My mother is still a bit skeptical about our population work, but she does think that family planning makes sense. After all she had only two kids herself, and she still doesn't understand why poor people have so many children. And she tells her friends that family planning has had a bigger impact in reducing abortions in the world than anything else.

My mother doesn't know a lot about economics, but she supports our microenterprise programs. It seems that about 15 years ago, she watched 60 Minutes and was impressed by a segment on the Grameen Bank in Bangladesh. She was really impressed when I told her I had actually met Muhammed Yunus.

She also likes the fact that USAID is helping other countries keep the same standards as we have to keep on the environment and on labor issues and banking rules and protecting patents and copyrights. She has a simple but very wise philosophy: If we are going to trade and compete andinvest in these countries, it is in our interest to help them improve their standards.

And, of course, my mother gives me full credit for all the new democracies in the world.

So, Mr. Chairman, I have made some progress with my mother, and she feels better talking about my job with her friends. Every once in a while, though, we have a problem. Last weekend I got home, and there was a message from her on my recorder. She had to talk to me right away. It seems that my name was in the Palm Beach newspaper in connection with a story about Haiti. I could just imagine what she was thinking: How am I going to explain this to my friends?

I called her, and she read me parts of the story. The essence of it was that the political crisis continues in Haiti, and people are still poor; foreign aid hasn't worked. I said, here are some of the facts you can use with your friends. USAID programs provided health services to 4.7 million Haitians, about 56 percent of the population. We have doubled our coverage and increased immunizations to 74 percent in the past few years.

USAID agriculture programs reach 166,000 families, or 20 percent of the farm families in Haiti, and they increased their income by 17 percent last year.

USAID has trained 11,000 teachers, and kids in USAID-sponsored schools are passing at a rate of 68 percent.

We have made loans to 9,200 Haitians under our microenterprise programs.

The government is still in crisis, I said, but the police and the judicial system are working better than ever.

I told her to tell her friends that these programs have had an impact on illegal immigration, which was some 40,000 a year in the 1991-94 time frame. It is now down to a few hundred a year.

She said, okay, okay, enough already. If you think I am going to talk to my friends about Haiti, you are crazy.

Mr. Chairman, my mother hasn't heard about the budget resolution yet and the severe cut in the 150 Account, and when she finds out, I am sure she is going to say something like, what is that mean John Kasich trying to do to that nice Sonny Callahan? Doesn't he know that the kids are going to suffer, and all that good work you are doing will be lost? Maybe I should call him and give him a piece of my mind.

Of course, I tell her not to bother, she won't be able to find him, he will be in Iowa or New Hampshire or somewhere.

Seriously, Mr. Chairman, I don't know how our programs could survive if we have to take a cut in the 150 Account of 3.2 billion below last year's appropriated levels. This would frankly compromise not only our viability as an agency, it would also, I believe, compromise our national security.

Our budget, as you well know, enables our country to respond to natural and man-made disasters. It enables us to respond to postconflict situations, where the peace is still fragile. And it helps us to prevent crises where the developing process works.

We are today using our military as a last resort against Serbia. No one wants to use our military forces in combat, but sometimes it is all that can be done. The first line of defense is our diplomacy and our development programs. These cuts will mean that we will see more crises requiring the expensive use of our military in the future.

I sincerely hope we will be able to revisit these allocations by the end of the year and that we will begin to look at the budget surplus and maybe an increase in that surplus in the context of a broader view with national security.

Mr. Chairman, I have obviously gone on too long. My written statement, which is boring, effectively, however, defends the President's budget request, and I hope that budget request is not a dead letter. I ask that that formal statement be made a part of the record.

Again, Mr. Chairman, and Mrs. Pelosi and other members of the committee, I thank you for listening to me this morning and for the past 6 years.

[The statement of Mr. Atwood follows:]

[GRAPHIC(S) NOT AVAILABLE IN TIFF FORMAT]

Mr. Callahan. Well, thank you, Brian, and I certainly enjoyed your testimony. For one thing, it gave me a great deal of encouragement, because I finally found out you and I have something in common, we both have a mother.

Mr. Atwood. Is she embarrassed by your job, Mr. Chairman?

Mr. Callahan. I wanted to tell you that I have not told my mother yet what I am doing up here. And if you happen to be flying through Mobile, Brian, please don't let the people of Mobile know what I am doing either.

An interesting comparison, though, because you said that your mother had two children and believes in family planning. My mother had nine children. Guess who is going to win that battle with the Chairman? There are good points in having nine children. If your mother needs a new car, I am sure she has resources of her own that she can buy one, but if the kids had to buy it, you would have to come up with half the money. In our case I only have to come up with one-ninth of the money.

So there are advantages to having children. My mother also gets a double shot, because I have a brother in the State Senate in Alabama, so the poor woman can't even go to the grocery store without receiving some degree of criticism about her political family.

But, nevertheless, your mother is a very wise woman to recognize the value of the Child Survival Account. I am just amazed she didn't teach you that before I had to teach you.

We are also pleased to have the Deputy Director here, Hattie Babbitt, today. Happy to have you with us today. Thank you for your testimony.

Ms. Pelosi.

Ms. Pelosi. Thank you, Mr. Chairman.

Mr. Callahan. I am going to have some in a minute.

Ms. Pelosi. Thank you very much. I was all already to applaud at the end of your testimony, and then I remembered we were in a hearing, and this was not comedy hour. That was really wonderful how you put that all into perspective for us. I hope that your mother will get a copy of your statement very soon, Brian.

OPERATING EXPENSES

Mr. Chairman, I, too, want to join in welcoming Deputy Administrator Hattie Babbitt with us today. I wanted to follow up one point I made in my opening statement about USAID's request for operating expenses. Can you describe for us, Mr. Atwood, what would happen if you do not receive the full request?

Mr. Atwood. Well, thank you, Ms. Pelosi, for asking that question, because we have had to ask for an increase this year in operating expenses. It is the first time in 3 years we have had to ask for this. But the increase will basicallykeep us where we are. We are trying to maintain the staff level overseas that we had at the end of fiscal 1998. It was about 650 people. Some people think we should go up higher, but we are trying to look at our work force to try to figure out how we can plan better, perhaps use regionally-based missions overseas a little more than we have in the past in order to get the work done, which continues to increase.

In order to do that, and under the budget request that is before you, we will still have to cut in Washington in order to maintain the fiscal 1998 levels overseas. I am not sure exactly what that cut would be. I believe it is only about 4 percent of our work force in the fiscal year we are talking about, but

that is significant. We know we can cover that by attrition, although we will use a number of ways in which we can actually focus on the work force we actually need, as opposed to allowing attrition to do it in an indiscriminate way.

We do not expect to have to have a RIF, but what I am trying to say is that in order to maintain the technical competence and the support competence of our Agency, we need this operating expense request that we have made. It is about a $17 million increase over last year's level, but when you consider the pay raise, the 4.4 percent pay raise and other increases in expenses, it only represents about a 1 percent increase, which doesn't even cover the additional costs of doing business overseas and the inflation rate.

So it is really vital. I think that we have cut much too far at USAID. We have a very talented staff, but there isn't a single person down there that isn't working around the clock in order to get the job done. So I am glad you asked this. This is a very important aspect of our work.

Ms. Pelosi. I have become increasingly concerned about the ability of us to hold onto the talent that we have when the budgets are being cut the way they are. It does not allow us to maintain some certainty in terms of the professional relationship of these people who, because they are all talented, have other options. They are all providing a great service to our country.

BUDGET CUTS

Speaking along the line of budget cuts, the number in the Republican budget resolution going to the floor today cut international spending, and we have talked about this earlier, from about $21 billion in 1999 to about $16 billion in 2000. It is the biggest cut in percentage terms by far to any budget function. The resolution being presented to the House contains no explanation about how these cuts should be realized and no explanation of how such cuts will affect our national security.

If we assume that the $4 billion spent to run our embassies remains intact--and I know that you certainly hope that is the case now more than ever--and that aid to the Middle East will remain constant at $5 billion, the remaining foreign aid programs in that function would have to be cut almost in half; $7 billion would remain to fund international programs that were funded at $12 billion last year.

Mr. Atwood, would you explain to us what would happen to our aid programs and to AID itself with these kinds of reductions?

Mr. Atwood. Well, to be general at first, instead of specific, I would say that we would lose our viability as a leader in the development community. We have managed over the years through our leadership in various areas to lead other donors to contribute; using the same methods that we have used. We now only give about 10 percent of all development assistance in the world. The rest of the donor community provides the 90 percent that we don't provide, but they follow our lead.

They continue to follow our lead, and that is because of the technical expertise that we have as an agency, because of our ability to tap into the United States, the great

universities, the PVOs, the think tanks and the like. Such a cut really would damage us. I have mentioned before the operating expense budget. If we don't have our presence overseas, we lose our leadership. I can't imagine how we can sustain that if we have these deep cuts.

You mentioned before the problem that there are a lot of parts of this budget that really must be sacred. I can't imagine people talking about cutting the Middle East budget at a time when we are hoping to implement the Wye agreement; although, clearly that is out there as an option.

I can't imagine seeing this subcommittee, in particular, cutting the Child Survival Account, because I think you know that it would make all of us vulnerable to the charge that we care less about children than obviously we do. That is a serious problem.

I can't imagine how we can live with this $16 billion. The Secretary of State has already spoken on this issue. I wonder how much attention was given to this when these cuts were made, frankly. I am not challenging anyone's motives, but there are a lot of things that needed to be balanced when the budget resolution was sent out, and I think that, frankly, the 150 Account became an afterthought. But it can't be an afterthought, and we have got the responsibility, I think, those of us who know about what is done with this money, to provide for our national security, and to provide for people around the world, and to maintain American leadership. We have got to make a case that this cannot be sustained; that this will not hold.

Of course, it is a little premature before you even marked up a bill to suggest that that bill would be vetoed, but I think all bills in the 150 Account, if they come in with this kind of 25 percent cut, would be veto bait downtown, and it looks to me as though we are going to have to revisit these issues again.

I realize the budget resolution is on a fast track, it is going to be accepted, but I also understand that the budget resolution is a congressional document. It doesn't get sent downtown for approval by the President. And so we are going to be in the battle, I think, all year round, and what I hope is that we don't lose sight of the 150 Account as we talk about a lot of other issues that relate to domestic programs and the like, because this is going to be a devastating, and I don't see how, frankly, this can be sustained.

Ms. Pelosi. Thank you, Mr. Atwood.

Thank you, Mr. Chairman.

Mr. Callahan. Mr. Knollenberg.

Mr. Knollenberg. Thank you, Mr. Chairman.

Mr. Atwood, welcome.

Mr. Atwood. Thank you, Mr. Knollenberg.

Mr. Knollenberg. Good to see you again. And I, too, join my colleagues in extending congratulations in terms of some news about your future. And I would certainly support that happening.

Mr. Atwood. Thank you, Mr. Knollenberg.

Mr. Knollenberg. First very quickly just a couple of questions, and I wanted to thank you for a couple of things. One is your availability in a number of cases on a number of issues. And, in particular, I want to talk now about Armenia and the Nagorno-Karabakh. You know well the initial difficulties we had with the distribution of the aid and implementing assistance projects in Nagorno-Karabakh. My belief is that that is being resolved now satisfactorily, and I think that would be a reflection of what you feel and what your staff believes as well.

Could you confirm this, that we have reached a point where distribution is on target?

Mr. Atwood. Yes, it is on target. We are going to be submitting a report momentarily to you to explain how we have complied. We have managed to disburse $12.5 million of the fiscal 1998 resources. We have had some problems inside Nagorno-Karabakh. There was an effort by the authorities there to try to tax the assistance. We have convinced them to change that.

Mr. Knollenberg. That is right, that has been changed. What do you anticipate in expenditures for the balance of fiscal year 1999?

Mr. Atwood. I will have to--I think that we have, according to the answer that I have been given here, we will be able to exceed the $12.5 million that you called for in the fiscal 1998 legislation.

Mr. Knollenberg. What about the focus of that spending?

Mr. Atwood. Well, the focus is clearly humanitarian, and the vast bulk of it will be in Nagorno-Karabakh itself. Some will be spent in the immediate vicinity as was permitted by the legislation.

Mr. Knollenberg. Right. And here is a question. What can USAID do to ensure that this Nagorno-Karabakh assistance gets to those in need, and without violating the existing ban in USAID on what they call green villages. You are familiar with the green villages, I am sure, or villages in which existing homes became available for the IDPs due to this displacement of their citizens?

Mr. Atwood. Well, it is obviously a difficult region to work in. We don't have USAID mission there, but we do work through private voluntary organizations that do have access and do know what they are doing. And I don't believe that that is going to be a constraint, because what we are trying to find are legitimate humanitarian programs.

North Korea

Mr. Knollenberg. Thank you for those responses. Let me go on to North Korea and the food assistance. There are periodic reports that North Korea regularly diverts international food aid to feed its military and elements of the Communist hierarchy. In the meantime, reports show that malnutrition and death due to famine run rampant through the North Korean countryside.

In addition, I understand that the North Korean Government is undermining the existing monitoring program by rejecting spot inspections, unaccompanied visits and Korean-speaking

monitors. I have strong concerns about the administration's apparent lack of commitment to monitoring this food aid program. In fact, it is my understanding that USAID is not even involved in the negotiating the Memorandum of Understanding, or the MOU, regarding the distribution of U.S. food aid, but instead gives that authority or responsibility to an NGO team. I don't know what NGO or NGOs those happen to be.

But what steps can USAID, as a primary distributor of the food aid, take to minimize the diversion of vital food assistance away from the suffering civilians that need it most?

Mr. Atwood. Mr. Knollenberg, we are deeply involved in monitoring this, the NGO group that is operating under the World Food Program, and the World Food Program itself negotiates the monitoring requirement. But we send USAID teams, including the Deputy Assistant Administrator for the Bureau of Humanitarian Relief, who has been in North Korea twice. The Assistant Administrator will be going soon in order to check on the monitoring system itself and to get firsthand reports from the NGOs that are doing the monitoring as well as the distribution of the food.

We believe that the monitoring system is adequate, that there is not the kind of diversion that has been reported.

Mr. Knollenberg. Do these monitors speak Korean?

Mr. Atwood. That is a crucial issue, and I would only say to you that they have access to people who speak Korean. Each time that we propose to put a monitor in who speaks Korean, we get a rejection by the North Korean Government. I would tell you this is an extraordinarily difficult environment within which to work.

The North Korean Government considers itself to be our enemy, and we their enemy. We are trying to respond to reports that as many as 3 million people may have died because of famine last year.

Mr. Knollenberg. That is my concern, because, frankly, I wonder if, as qualified and as thoroughly embracing as these monitors might be of making sure that these things are done in the way that they were intended, there is no language connect. Without it, there might be a real problem in truly being able to evaluate and monitor where that food goes. We have had reports, as you know, that much of it doesn't get to those folks in the field.

And some of it we have found comes back to us in the form of being on board ships allegedly belonging to the North Korean Navy, that is the U.S. food aid and, of course, the other countries that contribute as well.

So I do think that language issue is a very large problem. And I don't know what you can suggest doing about that.

Mr. Atwood. Let me just say that we have had absolutely no reports about food that has gone on ships. In fiscal 1998, the North Koreans agreed to allow the World Food Program to double its staff. It now consists of 46 international staff and over 20 monitors. U.S. PVOs are currently monitoring food-for-work distribution as part of an agreement signed with the government, and we believe that the monitoring still is adequate.

Yes, it would be nice if we could speak Korean, but what we have asked them to do is follow the food and make sure they

know that it is getting to the children and the people that are sick that need it. And our belief is that this is an adequate system. Because of the skepticism about this government, I think we are always going to have rumors and reports and the like, and we will be just as concerned as you are about those reports, and we will follow up each and every one of them, I can assure you.

Mr. Knollenberg. We will continue to do oversight on it, and I thank you.

Mr. Callahan. Ms. Kilpatrick. I am sorry, Mr. Jackson, I didn't know you had come in.

Budget Cuts

Mr. Jackson. Thank you, Mr. Chairman.

I want to start by welcoming Administrator Atwood and thank him for his testimony. I also want to associate myself with the comments of Ms. Pelosi regarding Administrator Atwood and I wish him well in his future endeavors.

Administrator Atwood, at this moment the House is debating which budget resolution to adopt, and according to the Republicans' budget resolution, international affairs discretionary spending would be $16.4 billion in budget authority, and $18.1 billion in outlays for fiscal year 2000.

Compared to fiscal year 1999, the measure calls for 23 million, that is 58 percent less than budget authority, and 600 million, 3 percent less in outlays. Granted the fiscal year 1999 levels include emergency funding as well as 17.9 billion of funding for the IMF.

If this emergency appropriation for the IMF is removed from last year's appropriation, the calculation for this year's budget resolution is about 5.1 billion, or 24 percent less than the fiscal year 1999 level.

Administrator, what would a cut like 24 percent of the function 150 budget do for USAID programs?

Mr. Atwood. Well, it would be devastating, Mr. Jackson.As I have indicated before, I think it would reduce our leadership capacity, but I think it happens at a time when we have some really serious international issues and problems. The Asian financial crisis has now spread to Russia, and then to Brazil. We are trying to manage these problems. What the financial crisis has done is to thrust more people into poverty.

There are people, some with political visibility, who are raising questions about whether this globalization is really a good thing. They are raising questions about whether it is a good thing to have democracy and open markets. They are raising questions about whether or not they should even participate in the international system. I think that is a national security issue. And our Agency, as well as the Treasury Department and the international financial institutions, are in place to try to manage the international system and to try to maintain stability, because it protects us, it protects our economy, it protects our dollar, it protects our financial status in the world.

I can't think of a worse time to cut the 150 Account by this extent. And I really believe that when people start to reflect on this, that there will be a change in attitude as

time goes on.

DEVELOPMENT FUND FOR AFRICA

Mr. Jackson. Thank you for your answer.

Mr. Administrator, I am pleased to see your budget once again includes the Development Fund for Africa. As you know, Africa has incredible potential, yet it suffers from armed conflict and HIV and the AIDS epidemic. Can you tell me why DFA was not appropriated last year, and what specifically would a 24 percent cut in your budget do to your programs in Africa?

Mr. Atwood. This year's budget not only includes the Development Fund for Africa, Mr. Jackson, but it also includes the President's commitment, when he went to Africa, to raise the development funds for Africa to their historic highs. This budget request not only includes the 500 or so million dollars for the DFA, it includes the amount that would go from the Child Survival Fund to Africa, as well as additional resources in the Economic Support Fund account. So the overall amount is going to be somewhere in the $810 million range, which is the historic high for Africa.

Of course, the President's commitment was only to request this of Congress. As the Chairman indicated, this Congress isn't obliged to honor that request, but we think it is extremely important not only to follow up on the President's budget, but on the recent African U.S. ministerial meeting that was held in Washington last week.

There is tremendous opportunity here in Africa. These countries are not directly affected by the financial crisis, and their currencies and financial systems are intact. They need obviously to be reformed, many of them, but they are not able to sell commodities to the extent they were, so the projected growth rates of these societies is going down.

When you consider the battle that they are in to protect their societies against AIDS, to protect their societies against all of the elements of poverty, they can't afford to see their growth rates go from 4 percent to 2 percent. I mean, that means a lot of people out of work. It means a lot of people who are going to need food, aid or whatever.

So we consider this request to be extremely important and certainly is something that has been welcomed not only by Africans, but by people all over the world.

DEBT RELIEF

Mr. Jackson. And some sub-Saharan African countries' export earning potential, as much as 20 percent of it is going to servicing foreign debt. Do you have an opinion about that, Mr. Administrator?

Mr. Atwood. Yes. I think it is horrendous that that is the case. Many of these countries are paying less for education and health care, the kinds of things that develop human capacity, that will enable them to compete in the global economy. They are paying less for that than they are in servicing debt. The President, at the U.S.-African ministerial, put forth the most far-reaching proposal for debt reduction and debt relief that any leader has thus far put forward.

Now the President is going to go to the G-7 meeting in Cologne in, I believe, May and attempt to convince his fellow leaders to follow his line on debt reduction and debt relief. We are tying that debt reduction proposal to economic reform. We do that not because we want to condition it and sort of keep a hammer over the head of governments in countries, but to continue to push those governments in the direction that they are already heading. Many of them are already undertaking reforms and seeing the benefits of making those reforms. So it is important to keep this in mind.

As Secretary Rubin said when he testified, I believe before this committee, it doesn't do any good to relieve debt to some countries that are already viable economically, because it simply raises the question as whether or not their own credit rating in the world system should be reduced. If a country needs total debt relief, then a country is usually a basket case. And many of the countries that are indeed basket cases, the most needy do need total debt relief, but not countries that are beginning to make it. What they need is to be able to attract investment. And investors are not going to go into countries that need debt relief.

So we need a program much like the one the President proposed, which is a combination of debt relief for the neediest countries; debt reduction for other countries; making people more eligible more quickly for the HIPC program, the Highly Indebted Poorest Countries program; relieving bilateral assistance up to 90 percent; encouraging other countries to provide assistance on a grant basis, not a loan basis.

We provide our assistance on a grant basis. Japan, France and other countries provide much of their aid on the basis of a loan. That doesn't help these countries at all.

So I think the President's program is a good one, and I hope it will receive support in the international community.

Mr. Jackson. Let me once again thank you for your service.

And, Mr. Chairman, let me thank you for your indulgence.

Mr. Callahan. Thank you, Mr. Jackson. Let me follow up on some of your comments.

SOUTH AFRICA

In 1994, when we entered into our agreement to provide assistance to South Africa, we, as I recall, were going to try to wean South Africa by the year 2005. Since that time, we have provided more than $700 million in assistance to South Africa, a country which has great wealth of its own.

And as Mr. Jackson indicated, our allocations this year are going to be severely hampered. It is going to hamper our ability to provide more money. Assuming that we have the same amount of money that we had last year, shouldn't our emphasis be with that money that is going to be available for Africa as a continent? Shouldn't that money be concentrated in sub-Saharan Africa instead of continuing the programs in South Africa, a country whose wealth now and whose progress has, I think, graduated them to independency?

Mr. Atwood. Mr. Chairman, the wealth of South Africa is in the hands of about 20 percent of the people who live there. It is really two countries. It is an underdeveloped country in one

sense and a highly developed country in another sense. We have asked, I believe, in this budget for slightly less for South Africa, because progress is being made under the Mandela government, but we believe that the apartheid experience has really left South Africa with problems that are very, very difficult to surmount.

We are trying to help introduce more people into the private sector. We are trying to help that country and that government privatize its economy, train more people so that they can participate in the wealthier side of the equation in South Africa. We are trying to provide health care to people that have not received it under apartheid. We believe it is important to keep our hand in in South Africa.

Mr. Callahan. Brian, we are not questioning whether or not apartheid was right or wrong. We all know it was wrong. That was not the question. The question is, you are going to have a limited amount of money for the continent of Africa. Sub-Saharan Africa has tremendous needs, and yet you are announcing an extension of the program in South Africa.

I am sure there are some people who are still suffering from segregation here in this country, but you have to someday get past that, and I think as far as this country is concerned, we have made our contributions. But for us to continue to spend money regardless that the great wealth of the United States is in the hand of 20 percent of the people in this country--that is not uncommon--the fact is sub-Sahara has a great need for the type of assistance your Agency provides.

We are providing you resources, as you mentioned, especially in child survival, but still you are advancing a program in a section of the country that has graduated, and I think we ought to recognize there should be higher priorities in Africa, and that higher priorities should be sub-Saharan Africa, rather than South Africa, rather than to announce an extension of a program that has been successful.

That is just a thought I had, because many Members of Congress are insisting. And we want to assist them, and we want to assist the people in sub-Saharan Africa, but if the administration is going to say they are not that important, we have got to protect them or affluent people of South Africa first, it is just not, in my opinion, the right direction.

Mr. Atwood. I always respect your opinion, Mr. Chairman. And clearly decisions have to be made if we have to live with budget cuts. But all I can say is that we made the announcement about the extension of the program because it was the opinion of both the Government of South Africa and ours that the development goals that we set for ourselves would not be met in the time frame that was earlier established.

Mr. Callahan. Not too many Members of Congress come to me and say, give more assistance to South Africa, but a great many Members of Congress say, give more assistance to sub-Saharan Africa. So I try to give you and the administration flexibility. I say, here is the money; you spend it, you prioritize it, and yet you force us into saying that you are going to spend a greater percentage of your money in sub-Saharan Africa.

We know that there is going to be a pot of money for the continent of Africa, period. So do you want us to tell you to

stop these programs, or do you want to do it yourself? That is, I guess, the question.

Mr. Atwood. Mr. Chairman, as has been true every year since I started in this job, we would like you to give us a blank check is my answer.

Mr. Callahan. You are making it very difficult.

Mr. Forbes.

Mr. Forbes. Thank you, Mr. Chairman.

Thank you, Mr. Atwood. And I would like to align myself with the comments of my colleagues who appreciate your leadership at the Agency and wish you well in all future endeavors.

Nations Graduating from Development Assistance

I would like to just follow up on the Chairman's question in perhaps a little bit of a different way. Mr. Atwood, do you foresee some of the nations who are now the beneficiaries of our generosity and development assistance, do you see some nations graduating from development assistance any time soon, and if you do, could you name those nations?

Mr. Atwood. It is a good question, Mr. Forbes, and many countries have graduated and have actually become donor nations themselves. There are about a half dozen countries now that are becoming active donors and are applying for membership in the OECD and the like.

In the first 2 years of my tenure at USAID, we reduced our program by 21 nations, and since then we have increased that to 28 nations. About half of those are countries that have graduated, or we thought had graduated.

We had set dates for some, like Indonesia, which was doing so extraordinarily well economically that we thought it could graduate, I think, by the year 2002. It has now obviously been thrust into crisis as part of the financial crisis, and we have to rethink that date, and we evaluate these issues all of time. But Korea and Thailand and Taiwan were all countries or entities, Taiwan not being a country by our standards, I guess, that have done extraordinarily well under the USAID programs and are now actually donor countries.

So, yes, there is a change in the amount of wealth in the world measured in real dollars since 1940--right after the war. In 1945 it was about $4.4 trillion; it is now something like $47 trillion. That wealth is a result not just of development assistance: it is a result of the world's economy growing, and many countries have become donor counties. We were the only one offering development aid 50 years ago.

New Management System

Mr. Forbes. I note in your statement that you talked about a delay in the new management system, the NMS being fully implemented, citing obviously limited resources in the Agency's ability to get that NMS up and running to full mode. I think you mentioned in your statement that you didn't envision that we would have that system in place abroad till at least fiscal year 2002.

Mr. Atwood. Right.

Mr. Forbes. Could you speak a little bit about the perennial concern, on the Hill about fiscal oversight at the Agency, and our hope that more and more of these actual dollars get into the hands of the recipients, and fewer of those dollars falling to third party or intermediaries in what I will say is a goodwill effort to try to make these programs work?

Mr. Atwood. Right. I am glad you asked that question, because when people hear about or talk about problems that we have with our NMS system, they make the leap that we, therefore, can't track the money. The fact is we can track the money very, very precisely. There are systems, there are regulatory systems and manual systems in many cases, that help us prevent the kind of fraud that affected this Agency 20 years ago.

We had major problems back then. We had a lot more money then as well, and there is less now to track. The problem we have today is that we have new government requirements that we need to be providing in an annual financial statement, and we need to have systems that will allow us on a timely basis to find out exactly how much money is in that pipeline for that particular program in that particular country. And we can get that information, but it takes us sometimes a couple of weeks. We should be making decisions a lot faster than that. That is what the new system is intended to do.

We tried to create a system using existing contractors that were on board when we got there. They clearly in retrospect were not capable of creating the software systemto do what we wanted it to do, and we have a system now that operates with an error rate that is much too high. So we have to go back in and check everything that comes out of the system.

It takes too much time, but we inherited back in 1993 a lot, 50 or so, different systems people using ``cuff notes'' and everything else. That was unacceptable as well, and the IG in those days used to say this Agency can't audit what it is doing. It can't produce an auditable account of what it is doing on the financial side. We can do that today, but we can't do it easily, and we are working toward the creation of a new system.

The Computer Sciences Corporation is a prime contractor, one of the best in the country. And we are working with them on the basis of a very specific timetable. I meet every month with our people to look at this. And we have confidence now, because there are now commercially available products that weren't available 4 years ago when we started this NMS system, that we can get a system in place and then deploy it internationally by the year 2002.

child labor

Mr. Forbes. One final question. The administration, of course, has talked about a globalwide campaign against abusive child labor, and you have requested new money, $10 million to implement, I guess, the first part of that campaign. Could you speak about what the Agency believes it will be doing with the $10 million if they are fortunate enough to get that for the program?

Mr. Atwood. Right. For the most part, we want to use the

$10 million to encourage children to go to school. There are many inhibitions against families sending kids to school in these very poor countries. Either they are working on the farm, or they are working in a factory and bringing money into the family. If we can provide such things as an incentive to go to school, if we can take care of the costs of, in some cases, buying a uniform or buying the books for the kid, or we can provide a meal when the child doesn't get a meal, a meal at the school, I mean, we can, I think, bring a lot of children that are now working that shouldn't be working into school.

That I think is the role for USAID. There are others that have other roles. The ILO, the International Labor Organization, is involved in a major campaign to try to stop child labor. And there are other ways we can do this through rhetoric and sanctions and the like to stop products from coming into our country that are produced by child labor.

Mr. Forbes. If I may, I really would like to understand this. So the Agency, if it were fortunate enough to get this money, would set up a program where you would actually buy children's uniforms, buy them books, buy them meals? I mean, does USAID really have the ability to really micromanage that effort in that way?

Mr. Atwood. What we would do would be to analyze the problem in each country and figure out exactly what intervention would help us to cut down on the number of kids that are going into child labor and the number of kids that are going to school. We think we can make an impact--I will be happy to discuss this with you more privately and give you our strategy paper for the child's labor----

Mr. Forbes. I would appreciate that. And I would just note that I think where we see a lot of this abusive child labor, certainly it exists in a lot of friendly nations as well as those that are best described as totalitarian, but how does the United States of America, presume to be able to get in to totalitarian regimes there and do something about abusive child labor? I think it is going to be a yeoman's task. And I would just suggest that $10 million wouldn't even open the door.

Mr. Atwood. No.

Mr. Forbes. But I would really like to hear more about it, because I do think it is a very big concern, and I am sure many Members of Congress share my concern for abusive child labor around the world. So thank you.

Mr. Atwood. Like everything we do, the $10 million, I think, can become models for what other donors can also do. It is a way of our leading the rest of the donor community to try and address this problem.

Mr. Forbes. Thank you.

Mr. Callahan. Ms. Kilpatrick.

Ms. Kilpatrick. Thank you, Mr. Chairman. And let me, too, Mr. Atwood, offer you my congratulations as you move to Brazil. As the Chairman said, we shall see you soon. And I look forward to that.

Mr. Atwood. Thank you.

aid budget

Ms. Kilpatrick. Of the $21 billion budget that is in

international relations, your Agency receives about one-third of it. You mentioned in your testimony earlier that some years ago it was quite a bit more when it was mismanaged and so forth. How high did the USAID budget get?

Mr. Atwood. In 1985, it was approximately 40 percent higher than it is today.

Ms. Kilpatrick. Seven million or 14--10, 12 million?

Mr. Atwood. Eleven billion at the time.

Ms. Kilpatrick. Billion. And in your good management style, 6 years later we see you at $7 billion, just as effective and doing more than what was done in those earlier years. Is that right?

Mr. Atwood. I don't know about that. We can use moremoney, but I don't want to compare. What I think is really significant to say about that, though, is that we had Cold War considerations. I am not saying that this is bad. It was supported by a bipartisan group up here that we had to give money to certain countries, because they were on our side in the Cold War.

Many of those countries were not good partners of the United States in terms of development. They were simply wasting money.

Ms. Kilpatrick. Still today?

Mr. Atwood. Pardon me?

Ms. Kilpatrick. And still today?

reform

Mr. Atwood. There are still countries like that. We believe that that is the most significant change we made in the foreign aid program. We don't work with those countries any longer. We work with countries that are committed to reform, committed to democracy and allowing their people to participate in the development programs themselves.

Ms. Kilpatrick. The bells are ringing, so I want to get through this. Thank you, sir, for that.

You mentioned the proposed funding cut quite extensively, and we are very concerned about them. You have also gone over how the cut would devastate certain programs that you administer. I will be going overseas on Saturday. South Africa will be one of the countries I am visiting. I am very concerned about the Child Survival and Disease Program, particularly regarding those three countries that we talked about before the meeting. If you will provide me with that information, I certainly would appreciate it. It would be very helpful.

Mr. Atwood. Absolutely.

new independent states

Ms. Kilpatrick. I did notice, too, in the Independent States line item that they are receiving an increase as so many other programs are being decreased. Why is that?

Mr. Atwood. Most of the money for the increase for the NIS goes into a program that is designed to reduce stockpiles of weapons of mass destruction and take nuclear scientists and retrain them and put them in some other more helpful line of work. Obviously, this continues to be a danger for our country. This is more of a national security issue than it is an USAID

issue or a development issue.

We are not going to be managing that program, so the increase that is reflected is mostly for that program. I believe it is about $184 million that the Administration requested for that important program.

Ms. Kilpatrick. And more for security in that part of the world that we are strategically concerned with. We will see the increase not in the specific interest of development, but more in the interest of security. Is that what I heard?

Mr. Atwood. That is, I think, both a development issue and a security issue. It is more of a security issue because of the nuclear aspects of it. And we, of course, realize that we have a very tense relationship today with Russia because of Serbia.

Ms. Kilpatrick. Today, of course.

Mr. Atwood. And at any given time that relationship can change, and, of course, they still have nuclear warheads and a capability to produce a lot of very dangerous weapons of mass destruction.

Ms. Kilpatrick. I should be asking you about what we did on the floor yesterday, then, as it relates to plutonium and some of the other things that were discussed. Are you prepared to comment on that?

Mr. Atwood. I am only peripherally aware of that, but I understand that you took some money out of that particular program for offset. I probably shouldn't try to get into those kinds of issues here. I think that there is enough of a debate that was probably a good one that was on the floor.

Ms. Kilpatrick. It was a good debate.

On the one hand you talk about maintaining security. I believe that we must. On the other hand, the politics many times get into some of our decisions. We must make sure the world is secure, and certainly America is really our first thought here.

Mr. Atwood. That is right.

Ms. Kilpatrick. Let me go on. Earlier you mentioned the administrative costs. As I looked at the briefing papers last night, I see that as everything is being cut, not including the Newly Independent States, your administrative costs are continuing to escalate. You did speak a little on that this morning.

Mr. Atwood. Right.

Ms. Kilpatrick. Tell me again why are they escalating as we cut the programming?

additional expenses

Mr. Atwood. There is a combination of additional expenses and a reduction. Our operating expenses are mostly appropriated by you on an annual basis, but also they come out of trust funds that have been created from prior year counterpart funds that were created in countries.

Those trust funds are going down, because our program has been going down so significantly in many of those countries. So that is on the down side of the ledger. The other side is the expense side. We have a 4.4 percent pay raise for Federal employees, which we are all happy about, but it still is an expense for the Agency. We have other expenses, including

expenses relating to where we operate in foreign countries which are difficult. So the overall impact is that we have had to ask for an increase in order to basically maintain the status quo. Even with this increase, we will still have to reduce our staff some in Washington in order to maintain our overseas presence.

Ms. Kilpatrick. Thank you, Mr. Chairman. In the interest of time, I would like to submit further questions in writing, if I might.

Mr. Callahan. All Members shall be permitted to submit questions.

Ms. Kilpatrick. Thank you, Mr. Chairman.

Mr. Callahan. I guess, Brian, we better recess here and go vote. We have two votes. So we will be 15, 20 minutes getting back, at which time we will then recognize Chairman Porter. Though, John, if you get back before I do, I will just give you the authority to open the meeting. You are a cardinal in your own right, and you know how to run them. So we will just recess until either some of the Members get back or Mr. Porter gets back.

[Recess.]

Mr. Porter [presiding]. The subcommittee will come to order.

I understand, Mr. Atwood, that this is your last appearance as USAID Director, that you are about to embark on a further career as Ambassador to Brazil; is that correct?

Mr. Atwood. If the Senate approves, that is right, Mr. Porter.

Mr. Porter. That shouldn't be any problem, I wouldn't think. Well, we think you have done a wonderful job, and we want to wish you well in that position.

I want to ask, because I wasn't able to be here for the beginning of this hearing, I want to ask you a kind of a macroquestion before I ask some microquestions. With the end of the Cold War 10 years ago, there was great hope that the values that the United States holds most dear, democracy, human rights and free enterprise economics that provides an opportunity for a better life for everyone, would wash across the world, and obviously a lot of that has actually occurred, but a lot of it hasn't.

Do you think the United States has provided the kind of leadership and outreach to the rest of the world that we should to make that happen, or have we really not done nearly enough to bring about true change across the globe? What is your assessment of what has happened since the end of the Cold War in our leadership?

market economies

Mr. Atwood. Well, I think the United States is largely responsible for the increase in the number of democracies in market economies. We have promoted it actively both diplomatically and rhetorically and through our programs. I think one of the best ways perhaps that we were able to promote it was that we were seen as the winners of the Cold War. I mean, our systems did prevail over the Communist system.

I think that we have not always put our money where our

mouth was, and when we go out and really promote, encourage countries to abandon old authoritarian or totalitarian systems, tell them that they should become democracies and free markets, we haven't often followed up with the kind of assistance they need in order to do that.

You can't just give them Adam Smith's book on free markets and give them the Federalist Papers on democracy. There are a lot of nuts and bolt involved. And I think that some of the problems that we are seeing now from the world's financial crisis are the result of not getting it right, of not having banking systems that are well managed, not having free-market systems, financial systems that are open and transparent and accountable, not having governmental systems that operate very efficiently, nor are they understanding the concepts of checks and balances and the like that we accept as part of our democracy.

That is a lot of hard work, and we, it seems to me, should be doing more to enhance their capacity to move in the direction that they now want to move in. And I think a lot of countries are disappointed that we haven't come forward a little more effectively on the aid side of that equation. But having said that, I don't think there is any country that is more responsible for the change in the world than we are right now. We have got this real questioning going on about globalization because people are suffering, and they are saying, you know, you wrote the rules, you are doing well, you in the United States, you are doing well in Europe, you are doing well in Japan, but we are still struggling. We are still operating under your rules, and we are suffering; are you going to help us so that we can meet the standards that will allow us to join the World Trade Organization and the like?

All of those things, I think, are major factors in people's attitude, and what I fear is that if we, for example, cut this budget even more and don't help encourage the other donors to help, you are going to see people moving in the other direction. And I think that is wrong for their own interests. They shouldn't do it, but they will be more susceptible to demagogues and people who have extreme philosophies. That may be particularly the case in Russia, where it seems to me that the story of what is happening in Russia is not really well known by the American people at all, or what isn't happening, and the dangers of not so much a move away from democracy per se, but a desperation borne of a society that simply isn't working for its people, and that, I think, is a great worry for all of us.

outreach

Mr. Porter. Would a lot more money do this? In other words, we are in a period of huge economic expansion, coming to grips with our own deficits and bringing them under control, and yet we are spending less and less on outreach to people we want to bring to our values and make allies, and trying to do it on less and less money; are we not?

Mr. Atwood. We are, and I think at great cost over the long run. We are facing the kinds of problems that could really give people in future generations in our own country a major

challenge, and they will look back on this era and say have we invested in the right way to protect their interests. We are now, for example, questioning the issue of universality.

What that means in terms of our presence overseas is should we have an embassy in every country around the world. Obviously this security threat bears on that issue greatly. But if we are not present, and, you know, I am hopefully going to a country which is a very large country, Brazil, we now have three consulates in Brazil, we used to have five, we used to have representation up north and in Fortaleza as well. If you are not there, you don't know what you are missing. If you are not there, you don't know what Americans you can't help or what information you are not receiving about a very large country that is as large as the continental United States.

That is true generally all over the world. If we have to cut back our diplomatic missions, then we just don't know what we are missing. And all of a sudden our leaders are going to be confronted with major surprises in the future, and we will be relegated to using the last resort, which is our military, which is well financed, and should continue to be well financed, and I don't think that is what the American people want.

Mr. Porter. Well, it is not the jurisdiction of the subcommittee, but I think you are exactly right that we need to make our presence overseas much greater rather, not much less. We need to build the kind of diplomatic missions that reflect our country and its beliefs and do more outreach. And it seems to me, we are underfunding all of that.

family planning in turkey

Let me ask you about family planning in Turkey. You are cutting in half family planning assistance to Turkey for this fiscal year and apparently zeroing it out for the following fiscal year. Why is that? Why are you doing that? Isn't this a place where money would be well spent?

Mr. Atwood. Mr. Porter, it is the result of a success of the program. This is not as poor a country as many programs and many countries in which we work. This program has been in place since, I believe, 1977. The program has worked extraordinarily well. The coverage is extensive within Turkey. The economy of Turkey is not weak.

You recall a few years ago when we tried to convert the Turkish cash grant program into a project-oriented program, and the Turkish Government said, we don't need that kind of help. I understand their reaction was as much political as it was based on a real assessment of need, but the fact is that we believe we can now successfully phase out this program and not have the negative impact on family planning programs, because it will be carried on, it is a sustainable program.

victims of torture

Mr. Porter. The Congress and the President passed and signed into law the Torture Victims Relief Act, which called for an authorized level of $7.5 million for USAID to support the centers for treatment of victims of torture. What funding

level will USAID propose for this purpose for the next year, and what plans does USAID have to implement the act? Will it be incorporated into the program of the Center for Democracy in Governance?

Mr. Atwood. Mr. Porter, we have sent a report to the subcommittee earlier this week which indicates that our treatment and prevention programs and related activities are estimated in fiscal 1999 to be in the $5 million range. In fiscal 2000, we will continue to do more, the same types of activities dealing with victims of war and human rights abuses.

In addition, the administration has requested a million dollars, which will be specifically targeted at victims of torture, and we are currently considering the most cost-effective and efficient way of programming those funds.

Mr. Callahan [presiding]. We need to recognize Mr. Sabo, and we will certainly come back to you.

Mr. Porter. Thank you, Mr. Chairman.

Thank you, Mr. Atwood.

Mr. Callahan. Mr. Sabo.

Mr. Sabo. Thank you, Mr. Chairman.

Mr. Atwood, welcome. I am new to this committee, and so it is good to hear from you, and you made a most impressive presentation to us this morning. I am sorry you are leaving. I wish you well.

Mr. Atwood. Mr. Sabo, I welcome you to the committee. I sometimes wish that you were chairing the Budget Committee, but thank you.

Mr. Sabo. I am not sure I would in the current circumstance. But let me say, Mr. Atwood, let me share my concern over the victims of torture funding that Mr. Porter raised. And we appreciate the help your agency has provided, and I look forward to working with you. But let me just say in terms of where we are at, we are voting on a series of budget resolutions today. And I call it sort of a make-believe day. We are so totally removed from reality in what we are talking about in terms of what we are going to do with funding and discretionary programs, not only yours, but a whole series of others that impact day-to-day lives in this country.

I think you are right. I think the recommendations for your function represent a totally distorted view of the future for this country and for the future of national security of this country. We are going to have significant increases in defense at the same time we are cutting your budget and everything else that relates to international relations. And clearly both in the short term and long term, it just simply doesn't make sense.

So keep making the case, and maybe before this year is over, in some form, we will deal with reality. But we are acting like we are practically a developing country rather than a country in the midst of probably the greatest prosperity it has ever had, and somehow we have a view of ourselves as being poor, when, in fact, we are the richest country in the world. And I am not sure how we change that sensibility of how we deal with programs. There are always going to be tough choices to be made, but we aren't beginning to deal with real ones in the resolutions we are considering.

Let me ask one other question that relates to your day-to-day operations. I listened. I don't know what your administrative size is particularly, but you are having trouble dealing with computer systems, and for the life of me I don't understand what is going on with these systems. Every agency I deal with is having computer system problems. You know, I am on the Appropriations Transportation Subcommittee, and day in and day out we are having computer program problems at the FAA.

But every agency of the Federal Government has this common problem. We can't figure out how to develop a computer system, large or simple. One understands the problem, you know, when it is large, it is new software, new things, why it should be complicated, but it is just systemic to our whole system, and my observation is I am not sure how we should handle it, but we expect operational agencies to handle major procurement, and it seems no agency can figure out how to do it.

I keep wondering if the Office of Management and Budget should provide greater assistance. Most tell me from the experience they have of dealing with budgets with OMB, that we would be in big trouble if you get them involved in trying to figure out how to buy something. I am not sure whether it should be the General Service Administration. Boy, I think every administrator, should write someone, I don't know who, in the President's office. You just focus on this problem of how we handle procurement in the planning process for buying computer systems, because from large agencies to small ones, from complicated to uncomplicated, every agency has a problem doing it and having it come out right.

Mr. Atwood. Should I comment?

Mr. Sabo. Yes.

Mr. Atwood. Obviously it has been the bane of my existence. We haven't enjoyed the problems we faced, but we have different requirements than private corporations. Private corporations seem to be able to buy packaged, commercial off-the-shelf products. There have now become some available for government, but when we purchase one, which we will by the end of this fiscal year, we may have to modify it because of all the needs we have here.

I mean, we were just talking to the staff here earlier about all their needs for information about how we are spending the money. Those sort of bottom-line needs are not necessarily the same needs that a stockholder in a company would want, but it is complicated to accomplish. We compound the problem with this year's Y2K issue. We have five critical systems we are modifying Y2K. We went through and modified four of the systems and put them into testing.

And there are interfaces between one system and another that we thought were passive interfaces. In fact, when the testing took place, we realized that there was computer processing going on and that there were dates in those interfaces, so we had to go all the way back and fix those. And we fixed them, and now we are testing those and we will have them done by May.

But, you know, I was beating myself up a bit, being defensive about this on the Senate side last year. And Senator

Bennett, who knows something about this stuff and is the author of the Y2K report on the Senate side, said, Mr. Atwood, stop beating yourself up; everyone is going through the same problems. I believe that one of the problems of government is that we can't compete with private industry and with what we can pay for experts in this area; we have a very thin staff.

We have got really good people at USAID working on this, but if one of them is sick one day, we are going to be set back perhaps for 30 days in getting this work done. So it really is a problem. We have to go out and contract for it, but we can't pay top dollar, the way private sector companies can, and so as was the case in the early days, we had contractors that weren't up to the job.

We think we have a contractor that is up to the job now, but I think those kinds of issues are important to acknowledge. Government is different, and we need perhaps the kind of support you are suggesting that we should get. I must say one thing for OMB, they have been very helpful to us on this. John Koskinen, who used to be with OMB and is now the Y2K czar, comes to our office every month for a meeting to get updated on the Y2K issue. He has been very helpful.

So it is a struggle, but I think we need to realize that government is different from the private sector in trying to handle these issues.

Mr. Sabo. I am just curious. You started the whole development process. Was there any centralized place you could go to say, How do we draft proposals? I know how to turn on the computer and that is about it.

Mr. Atwood. The GSA has a facility they created for providing tests in the early days. We did not believe that even their testing facility could test an integrated system such as the type that we had. I think in retrospect we should have forced them to come up with a testing platform that would have worked with our system. We should have tested our system better before we actually deployed it.

But we felt and made a judgment, and I think it was a correct one at the time, that the only way to work the bugs out was to deploy it. That, of course, raised the profile of what we were doing to such an extent that we had a hard time, frankly, coming up here every year and justifying getting more money for it. So you kind of work yourself into dynamics in this business.

Mr. Sabo. Thank you.

Mr. Callahan. Mr. Sabo, I agree with you. I am computer illiterate myself, and this might be some type of conspiracy that the computer industry has plagued us with. This problem might be solved for $10 instead of the trillion dollars that it is going to cost us. But on the other hand, with respect to our jurisdiction, the world is not going to come apart if the computer system of USAID doesn't work.

There is going to be some discomfort. The world very likely could come apart, on the other hand, with the FAA if airplanes start falling out of the sky.

Mr. Sabo. Mr. Chairman, what strikes me is that every agency I hear has just the same type of problem.

Mr. Callahan. I know that.

Mr. Sabo. And I gather it is not simply for dealing with

the Y2K problem, it is for developing a system that can handle the day-to-day operations; and sometimes they are complicated and sometimes they aren't. You know, IRS, and just name it, every agency is going to have the same type of problem, and it just seems that it is governmentwide.

Mr. Callahan. My wife has a company in Alabama and, you know, the computer experts and her employees are coming in and telling her, unless she spends a lot, thousands of dollars, the company will go to pot. And I am saying to my wife, Before computers, we did it by hand. All I need is the last month's statement and I can correct all of our problems by hand.

And yet they are going to have to spend maybe in our case $100,000 to develop some kind of a system that will get our invoices out on time. So I am telling my wife, if worse comes to worst, we will go back to hand. All you need is the last year-end, monthly statement and the archives that are available and you can go in and correct it by hand.

But all of these billions of dollars that are being spent and all of these indications of doomsday, the power is going to be off, and there is not going to be any Social Security checks or USAID can't operate. FAA, as computerized as they are, that is a serious problem. And our problem is serious, but hopefully the professionals will probably wake up in the year 2005, and we will find out all of this was a hoax that has been played upon us by the computer industry; that there was a simple chip that you could have inserted that would have eliminated all of this problem. I hope I am right.

Ms. Pelosi. Mr. Chairman, if I may on that subject, as a person whose area is rich in intellectual resources in this regard, I must say that hopefully technology and the increases in literacy among even our children will supply us with enough people who are capable of doing this, so we will have many more talented people to choose from and not have to compete with them in the private sector. But with the advances of technology and the spread of literacy in it, I think that we should be hopeful about it.

Mr. Callahan. I don't know if any of our customers would really complain if our invoices said 1901 instead of 2001. I am going to get my----

Ms. Pelosi. We don't want to live this century over again, this is the worst.

Mr. Callahan. I guarantee you my wife is going to get her invoices out. And they are going to be out in a timely fashion on the 1st of the month as they always have been, regardless of whether we spend the thousands of dollars they are talking about or not.

Did Mr. Kingston leave? Mr. Knollenberg, do you have a second round of questions?

budget concerns

Mr. Knollenberg. Mr. Chairman, thank you. I heard several members comment and obviously, Mr. Atwood, you have, too, about the budget, about the 150 account, and I share your concern about that. And I am going to work along with this committee and the Chairman to see that there is something righted about that. I want to talk at the same time, even though it lowers

our budget, it doesn't mean that we don't have to spend all of our dollars efficiently. And I am sure you recognize this, too.

energy efficiency

I wanted to just talk a little bit about climate change and energy efficiency. USAID has long been active in promoting cleaner and more efficient energy generation in the developing countries. These programs recognize that increased power generation is needed for economic growth. They have helped American producers of power generation equipment and have substantially reduced air pollution and promoted better health.

Now, USAID's congressional presentation makes global climate change the focus of USAID's energy program. It almost ignores USAID's traditional strength in clean and efficient energy. I would like for you, if you could, to tell me how USAID's relatively small amount of money will materially affect global climate change and the amount of greenhouse gases, particularly, when you look at places where USAID has few or no programs, such as China and India?

Mr. Atwood. No, we don't have any programs in China. And, obviously, China is a country that is the source of a lot of the problems in terms of greenhouse gas. And they are growing. We do have a program in India, and it is the same traditional program you are referring to. It is an energy efficiency program that is helping them save millions of dollars by introducing technology that we use here in the United States.

In fact, we have the Utilities Partnership Program, which we are employing all over the world. American utilities partner with a power plant or a utility in places like India, but other places around the world as well. All we pay for, really, is the initial travel expenses and get this thing started. They have their own interest in having these kinds of relationships, and they share a lot of really good information.

So I think that what we are talking about here is introducing energy efficiency techniques. We are talking about win-win propositions where you are basically lowering pollution rates in urban areas. In Cairo, for example, we have helped introduce compressed natural gas engines. It doesn't take a lot to convert a regular engine and we have really reduced the pollution in the city of Cairo significantly since that has happened.

And they have a lot of access to natural gas. Now, there are a whole lot of reasons for doing this that don't really relate to climate change; but, on the other hand, they all potentially relate to climate change.

Mr. Knollenberg. Let me kind of zero in on something that took place in the last week or so. A witness at our Treasury hearing responded to a question about the World Bank and the greenhouse gases, that successful energy policy doesn't reduce the amount of greenhouse gases below current levels; rather, a successful policy helps to ensure that needed increases of power generation produce the minimal amount of pollution in greenhouse gases.

And the question, Mr. Atwood, is, do you agree that continued emphasis on clean and efficient energy is a top USAID priority and is one that holds down the increase in greenhouse

gases but cannot reduce the overall level? There are two parts there.

Mr. Atwood. The assumption on the latter part of what you said is that the economies of these countries are going to continue to grow and they are going to have even more need for energy. And so if you can introduce the technology that will keep the energy clean, it is going to keep the levels at where they are. I think it is even possible if you had sufficient assistance and the technology were transferred in a sufficient way, to actually lower greenhouse gas emissions while experiencing these same levels of economic growth. But that would require the use of a lot of renewable energy technology that is frankly at this stage just being developed. But it is available and we believe we can make a contribution.

Mr. Knollenberg. I mean, the country that obviously you hope you will become the ambassador to, is a country that I was just reading goes through some difficulties in this arena. Brazil is an essential global climate change country. It says here that it produces--I really didn't know this, maybe you can describe it as it should be if it isn't right--it produces approximately 10 percent of the world's carbon dioxide, 10 percent; is that right?

And that is year in and year out, because--I know Brazil is a contributor in a great way to the carbon dioxide, but then you have other countries and the programs that you are focusing on here. It just seems to me--I know it is not a lot of money, but it seems the greater focus is on that issue of controlling the amount of greenhouse gases, and it would seem to me that that focus, whether it is done by USAID or whomever, ought to be utilizing those energy-producing sources that don't pollute, that don't cause carbon dioxide. I just wonder, this question which says, Don't you agree that the emphasis should be on efficient energy that is clean?

Mr. Atwood. Absolutely. And I think that is what our emphasis is on. A country like Brazil has a lot of hydroelectric power. And so the figure that you use may be correct, I am not sure. But, obviously, what they do contribute comes from automobile exhausts more than anything else. But the challenge in a place like Brazil is also trying to help them maintain the forest cover that they have, the Amazon, which absorbs a lot of CO2 back into the----

Mr. Knollenberg. It does say here it is 10 percent, but that primarily it comes from deforestation, habitat conversion and burning. Burning is the guide that gets----

Mr. Atwood. There are some serious problems with that in Brazil.

Mr. Knollenberg. Is 10 percent an accurate figure, though? You are going to determine that, or can you do that for the record?

Mr. Atwood. I would do that for the record.

[The information follows:]

We are not able to identify an exact figure for Brazil's contribution to global carbon dioxide emissions. According to the Energy Information Administration, energy-related emissions in Brazil in 1996 were 71.2 million metric tons, which is 1.18 percent of the world's carbon emissions. This does not include

carbon emissions caused by clearing of forests for non-energy uses, which is the largest source of carbon emissions in Brazil. In order to answer your question, Brazil needs to document, sector by sector, greenhouse gas emissions, as called for under the United Nations Framework Convention on Climate Change (FCCC).

To comply with the FCCC requirement, Brazil is expected to complete its national greenhouse gas emissions inventory that will report on its levels in late 1999. The study, supported with funding from the U.S. Country Studies Program, will report on emissions levels in the agriculture, forest, energy, and urban sanitation sectors. I hope we will be able to answer your question by this time next year.

Mr. Knollenberg. It just seems to me that it is very high. If that is the case, my God, China, India, have got to be in there somewhere. There are a few more countries. First of all, I question the accuracy of that statement. If you can verify that.

Mr. Atwood. I don't know if that is right, Mr. Knollenberg.

Mr. Knollenberg. Thank you.

child survival account

Mr. Callahan. Brian, the separate use of the Child Survival Account, we have been trying to find out exactly how the money is being spent. This account has universal support. Your mother, for example, likes this program. But if I were to run into your mother and tell her we are not really sure if it is being spent that way or not, we have been asking your son's agency to give us an explanation of these changes, and yesterday they finally came up with an explanation of them, which would appear like a bunch of gobbledegook, we couldn't tell anything from that report.

Why is it so difficult for you all to account for this program? We want the money spent on child survival. We know what child survival is, and we don't want to spell it out. Why can't you give us an accurate description of the monies that have been spent?

Mr. Atwood. Mr. Chairman, we can and we will. It is just a question of taking the time to put this together. But I mean just in asking the question, it is so obvious that we should have--our records should have been structured in a way to produce this kind of thing for you. Part of it is the NMS system not functioning properly and having to check everything, and part of it is having to go all the way down to the country level to find out the accurate information.

Charlie was showing me some of the charts that we sent you over yesterday, and I couldn't interpret them. I think we need, obviously, people down here to work with you to interpret them. We have the information, it is just a question of getting it into a way that my mother would understand.

Mr. Callahan. And me too, Brian. We need to justify it. I keep increasing this account every year. We keep getting awards from organizations and nice letters from people all over the world telling us what a wonderful program it is. Now the President of the United States and First Lady talk about the

Child Survival Account. You put it in your budget.

And, yet, from a fiscal responsibility point of view, here I am saying, What happened to the $600 million, and there is no real justification. We are not looking for how much of it was spent on planning, we are saying how was the money spent and in what areas, and was this money spent in family planning or how was the money spent? That is not a very difficult request. And yet we still have much difficulty in getting it.

tuberculosis program

Last year, you and I talked about the tuberculosis problem in Mexico. I think we were of the impression that you were impressed with the Texas program and then we finally get notification from you all that you are going to spend a million dollars, but there is no mention of that Texas program. Is that million dollars to be spent on the Texas TB program or what?

Mr. Atwood. It is going to be. That is right, that is right. It will be spent in the border area, and we have----

Mr. Callahan. I know that. But is that cooperating--Texas already had a program.

Mr. Atwood. Right.

Mr. Callahan. And they were looking for assistance. Is that going to be----

Mr. Atwood. Well, we obviously can use our foreign aid funds to work on the Mexico side of the border. HHS can work with Texas on the Texas side of the border. What we want to do is make sure that this program works to benefit the United States----

Mr. Callahan. I mean Texas----

Mr. Atwood [continuing]. As well as Mexico.

Mr. Callahan [continuing]. Texas put their money up for the Texas side.

Mr. Atwood. Right.

Mr. Callahan. They need a million dollars for the Mexican side. That is what it is all about.

Mr. Atwood. We met with U.S. State health officials, Texas health officials, and Mexico State and Federal health officials, and NGOs that are active on this TB issue, and believe that we have a good program. A team of internationally recognized experts went down there to develop the program over a multiyear period for tuberculosis control, and the team includes representatives of not only USAID, but the Centers for Disease Control and the Gorgas Memorial Institute.

And they are working indeed in collaboration with the Government of Mexico's Health Secretariat and with the Texas officials as well. I would be happy to give you more information.

Mr. Callahan. They are cooperating with the Texas officials with respect to the implementation of the program that they essentially had developed and they feel will work.

Mr. Atwood. That is right.

development fund for africa

Mr. Callahan. The Development Fund for Africa. Now, I have not been one to earmark monies, and you know my philosophy on

that. And we have done everything, yet you are coming up and proposing this year that we earmark a Development Fund for Africa. Why would you want new earmarks? If we give you discretion, you can do it. And if you do want it earmarked for Africa--you know my feelings about Central and South America--why wouldn't you have a similar program for something in this hemisphere?

Mr. Atwood. Well, Mr. Chairman, the Development Fund for Africa was originally a congressional initiative, and it continues to be on the books in terms of the authorization side of this. So it is obviously that we want to focus on Africa, given the President's trip to Africa and given the importance that we continue to believe Africa has in terms of development. I think the reason is as much, frankly, political as anything. It sends a message to Africa that we are focusing on their interests, it sends a message to people who care deeply about Africa here, the same reason that you want to focus attention on the people who care about children.

Mr. Callahan. I understand that. But we earmark for that a children's account, but we don't tell you to spend it on Africa. You do spend most of it in Africa, and I don't object to that, I don't really care. But I don't know why--I have been fighting to unearmark. I am not doing this for my benefit, I am doing it for the benefit of the administration. And then the administration comes back and tells me they want earmarking. You have got to make your mind up. Do you want flexibility or not?

You just can't pick and choose. Now if you didn't request the earmark, and I give you flexibility, you can do it anyway. And I realize the political aspect of it, but this is a political body, too, and I am a politician. And I am real concerned about that.

Mr. Atwood. Mr. Chairman, all I can say is that in any given year when I have to defend the President's budget, I am totally consistent in defending that budget each year.

Mr. Callahan. I think that answers it. I think I know what you mean.

Mr. Atwood. That is why you shouldn't stay in a job like this too long.

Mr. Callahan. We run into the same problem with the Coast Guard and with the Navy and everyone else who comes up here and quietly comes behind the doors and tells us what they want to do. And then, being good soldiers, they stand up and tell us just the opposite. So I appreciate your position. But once again we believe, or I believe, that we ought to give the administration as much flexibility as we possibly can to make these vital decisions that are necessary for our contribution to the elimination of suffering worldwide.

I don't think we ought to come up and be telling the administration where they are going to spend this, then. Ithink you are too professional to have this type of oversight coming from the Congress. But maybe I am wrong and maybe I will revisit that theory.

Mr. Atwood. I hope you won't, Mr. Chairman.

Mr. Callahan. Ms. Pelosi.

Ms. Pelosi. Thank you very much, Mr. Chairman, I have a few questions, but first I wanted to say again how impressive the administrator's opening statement was, to use your expression

from yesterday, with his eloquent and humorous presentation and explaining it to his mother. This is no reflection on anyone's mother; you were bringing the hay down to where the goats can get it. That was your expression on the floor yesterday. For the benefit of those who were not there, that is the Chairman's introduction to putting it into terms that normal people can understand .

Mr. Atwood. My mother might take offense to that.

Ms. Pelosi. Fair enough. I think in Alabama that is a compliment, but I am not absolutely sure. In any event, I didn't dare follow your good humor and the Chairman's, as always, humorous response, because you are in another league in the humor department. And I didn't say what I wanted to say at the time, because we were all in good spirits. But today is my mother's birthday, unfortunately I don't have her. So in that case, I am jealous of both of you. Usually it is just admiration that I have for you. Now, I have envy as well; you are so lucky.

Mr. Atwell. That is right.

brazil

Ms. Pelosi. Our colleagues have talked about Brazil and the environment. And I had a question about Brazil maintaining spending from its own budget for environmental mitigation, given the financial crisis there. You can probably give this for the record, since you were going to get some other information for the record about Brazil; unless you want to make some observations about the challenge you face when you go there as to what the U.S. can do to help with the environmental mitigation program for Brazil.

Mr. Atwood. It is a serious issue and a problem, and I think I probably shouldn't make statements about Brazil until my confirmation hearing.

Ms. Pelosi. I don't have much time.

Mr. Atwood. We would be happy as an agency to give you information.

[The information follows:]

The Government of Brazil (GOB) must make tough choices as it attempts to undertake budgetary belt tightening. Nonetheless, the Minister of Environment recently stated to USAID that GOB counterpart funding for the large international environmental program (PPG-7) will be available. USAID's commitment to the PPG-7 program (approximately $2.0 million annually) as well as its bilateral environmental activities in Brazil, supports implementation of environmental programs, largely through U.S. and local NGOs, thereby reducing the direct effects of possible fluctuations in GOB funding to this sector. Also, through USAID encouragement, the Minister of Environment will be recommending to the Minister of Finance that the GOB request debt relief from the U.S. Treasury under the FY 1999 Tropical Forest Conservation Act (TFCA). This will facilitate the achievement of the common objectives of decreasing deforestation and reducing green house gas emissions while generating local currency for the GOB's commitments to environmental actions.

Ms. Pelosi. I just wanted you to know it is an interest here. I wanted to talk a little bit about HIV/AIDS. You had talked about the President bringing the concerns of Africa and debt relief, et cetera, to the G-7 in Cologne. I hope as you consider the economic situation of Africa, especially Africa south of the Sahara, that you talk about the AIDS issue. Hopefully we can get the AIDS issue on the G-7 agenda in a very central way; because it does have a giant impact, not only from a humanitarian standpoint, but also on the economies of these developing countries as they are faced with this increased spread of the virus.

Last year the number of HIV/AIDS cases around the world increased over 15 percent. With all that we know about prevention and the devastation of AIDS, it still increased by 15 percent. The administration's fiscal year 2000 $127 million request for addressing the awareness represents less than a 2 percent increase from last year's level. I was disappointed that it did not include a continuation of the $10 million included in the emergency supplemental to address children and HIV/AIDS. I recognize that was an emergency, but I know that you participated with great pride with the President and the Secretary of State in making that announcement. But now it is not here.

Given the devastating impact of AIDS on the economies of Africa, isn't it possible for the administration to propose to do more?

Mr. Atwood. Well, we are proposing to do more. The request is 2 million more than the request we made last year recognizing, of course, that there was a supplemental that gave us additional resources which we were very pleased about. But we do more than any other nation in the world, and I believe that the leverage we have as a result not only of the resources, but of the expertise, really is helping us try to get a handle on this.

I wanted to mention that I was talking to Ms. Kilpatrick earlier. She is going to Africa.

Ms. Pelosi. So is Carolyn. They are going Saturday.

Mr. Atwood. Carolyn is as well, with Sandy Thurman the coordinator for AIDS programs out of the White House. I think that is very important. It has been only recently, for example, in South Africa that the government has really taken this issue on. A lot of governments prefer to keep their head in the sand on this kind of issue, but it is a major, major problem in that part of Africa.

Ms. Pelosi. I have asked you in the past, as I have asked at Labor-HHS, Mr. Porter's subcommittee, when the CDC and the NIH come there, that I hope we will have as much collaboration as possible between our domestic agencies and USAID, because our interests intersect. I think it is obvious for humanitarian reasons, but the argument can be made strictly on self-interest reasons as well, especially for infectious diseases. By that, I am not just talking about AIDS, but the issue that the Chairman brought up of tuberculosis. It is in our self-interest to help stop the spread of TB before it crosses our borders any

further.

The Chairman has admonished that our hearing is about to end, so I will submit what other questions I have that have not been addressed for the record. I still think that we are thinking too incrementally about the infectious diseases.

Ms. Pelosi. One question I will leave with, I want you to discuss, is, last time you spoke of USAID's inability to accept vaccine donations from the U.S. private sector for developing countries because of the need for strong health infrastructure in those countries. And I will submit a question to that effect. But I think we have got to stop thinking so incrementally about it and think in a greater way about the challenge that is there, and the tremendous resources that we do have from a standpoint of research, prevention, care, et cetera, in our country, but we have got to reach beyond our borders earlier and to intervene in all of those areas.

I think that is why it would be appropriate to be a major topic of discussion. Again, I want to thank you for your leadership, for your service. And I wish you well. And I hope whatever it is that you are hoping for happens soon.

Mr. Atwood. Thank you very, very much.

Mr. Callahan. And I, too, want to thank you. I was especially impressed that Nancy mentioned on the floor yesterday, in explaining callable capital to the Congress, I referred to George Wallace. When he was Governor he used to say, We need to bring the hay down where the goats can get to it. What he meant by that was that he tried to explain the complicated or issue of the time in a manner that the people could understand.

Your statement this morning was something that this Congress needs more of, a down-to-earth explanation of the needs and direction of your agency, in a statement without acronyms and a statement without all of the various things that we take so for granted on Capitol Hill here. You mentioned and I mentioned, too, the differences between my mom and your mom. And I got to thinking that your mom's view on family planning and mine might be different. But on the other hand, I may have told you this earlier, my mother tried to abort me; the difference is I was 14 at the time when she thought that might be a good idea.

But I thank you, Brian, and any way we can be of any help to you in your new endeavor, we want to do that. But in the interim you still have a huge responsibility of the transferring of this gavel to someone else. So the best of everything to you, and thank you for your testimony.

Mr. Atwood. Thank you very, very much, Mr. Chairman, and Ms. Pelosi.

[Questions and answers for the record follow:]

Questions for the Record Submitted by Chairman Callahan

evaluation of democracy programs

Question. For 2000, the USAID budget calls for $150 million for Democracy and Governance programs worldwide. This is basically the same amount as USAID spent in 1999.

One of the problems USAID has faced in recent years is attempting to evaluate the success or failure of its democracy programs under its

new ``Results Based Budgeting'' and the Government Performance and Results Act.

Let me cite a single example:

USAID proposes to spend $15 million this year in South Africa on its democracy program. One of USAID's key performance measures with this spending is to seek a reduction of politically related deaths in a region of South Africa from 2,087 in 1994 to 700 in 2000. Perhaps this is success, but not if you are one of the 700 people that still gets killed.

According to USAID, what constitutes ``success'' in a democracy program?

Answer. Broadly speaking, USAID's democracy and governance activities seek to promote the rule of law, genuine and competitive political processes, an active civil society, and improved governance. Success can be defined through progress resulting in these areas. The extent of progress depends on political progress in individual countries as well as the quality of specific programs. Furthermore, our programs operate in the context of other donors, host country dynamics in both government and civil society, and constraints of funding and USAID staffing among other elements.

Given the range and diversity of USAID's democracy/governance portfolio, the following represent some specific illustrative examples. Success in rule of law activities may include increased protection of human rights through legislation and/or effective advocacy efforts and expanded equal access to judicial protection through increased availability of legal services and legal information. More competitive political processes can be reflected by the development of impartial and credible elections administration mechanisms, more pluralism and more competitive political parties which reflect democratic political values. Success in the civil society area might include increased citizen participation and flow of information, and an improved legal framework for and institutional viability of NGOs (especially advocacy NGOs) or a freer more independent media. More effective governance can be reflected through more transparent, accountable and less corrupt governance. The specific targets achievable over the short-term, for annual reporting requirements, are at times difficult to establish and are being refined as we learn more about what can reasonably be achieved in fluid environments. Furthermore, democracy is multi-dimensional and achieving progress on any of these indicators may be necessary but not sufficient for bringing about democratic change.

In South Africa, one of the problems facing the country is political violence in KwaZulu Natal. One way to help address the problem is to support South Africa NGO conflict resolution programs that seek ultimately to reduce the level of political violence. We would like to see meaningful change as a result of the conflict resolution programs and a reduction in the number of political deaths is one measure of such change. Seven hundred politically-related deaths is 700 too many, which is why the reduction in such deaths from 2,087 to 700 is progress but not total success. Total success would be having no politically-related deaths. Our job is to assist in the development of a rule of law that seeks to deter crimes and safeguard human rights and personal security.

evaluation of democracy programs (prospective changes)

Question. What changes are USAID making to its evaluation procedures to better determine the success or failure of its democracy programs?

Answer. USAID is grappling with ways to evaluate programs to

determine what is more successful, what is less so. Through the Center for Democracy and Governance, USAID is working to document and disseminate lessons learned, best practices and technical leadership to better inform democracy programming in the field. Democratization is a relatively new development field and the body of knowledge of operations to promote democracy has increased greatly over the last few years. USAID is tracking programs to make determinations about judgements made about programming directions and disseminating lessons learned to other practitioners in the field. For example, we have learned that election monitoring on election day may not capture the full picture in terms of free and fair elections. The period leading to elections may require more critical attention for monitoring of interference with meetings by opposition groups, biased reporting via control of the media by the government, etc.

In addition, USAID has placed heightened emphasis on training its staff working in the democracy/governance field and implementing organization personnel on improved methods of measuring performance. Training has been provided thus far in three regions and twice in Washington. The Agency has also developed and last autumn widely disseminated a publication entitled ``Handbook of Democracy and Governance Program Indicators.'' Improved data on DG activity performance is increasingly becoming available, which is enabling the Agency to strengthen its capacity to assess the impact of related activities. Emphasis is also being placed on the development of mechanisms such as performance indices to better capture qualitative as well as quantitative results. USAID is also engaged in a dialogue with implementing organizations, end-users and other stakeholders on ways to further develop means to effectively gauge the impact of its activities in this area. Indeed, several implementing organizations attended the two Washington training programs.

security at ronald reagan building

Question. Mr. Atwood, you no doubt saw the article in the Washington Post on March 8, 1999, regarding the lack of security at the Reagan Building. It concerns me very much that after all we have gone through regarding USAID's move to the Reagan building, there was apparently little consideration given by USAID and the General Services Administration to the building's overall security.

Prior to agreeing to move into the Reagan Building in 1997, what assurances did USAID receive from the General Services Administration (GSA), that adequate security would be provided in the building?

Answer. As USAID prepared for the move into the Reagan Building in 1997, we worked closely with GSA to identify our security requirements. In addition, GSA provided USAID with a Pre-occupancy Survey Report that outlined all the security systems and procedures they planned to implement in the building. We are working closely with GSA to assist them in closing the remaining gaps between the planned security systems and procedures and what is the current reality.

Question. As part of its FY 2000 budget, is USAID requesting any funding for security upgrades to the Reagan Building? How much and for what purpose?

Answer. Mr. Chairman, we have made provisions in the FY 2000 budget for security upgrades to the Reagan Building. I respectfully request a session in camera to discuss the specific upgrades being requested.

Question. What additional steps is the GSA making to ensure that the building is safe? How much will GSA spend in FY 2000 for additional security at the Reagan Building?

Answer. GSA continues to work toward completion of the security

systems originally designed for the Reagan Building. We have worked with GSA to develop an answer to this question Mr. Chairman, but I respectfully request an executive session to discuss the specific security plans GSA has for the Reagan Building.

usaid overseas security

Question. Last year, in response to the tragic events in Kenya and Tanzania, Congress approved a $1.4 billion supplemental for security at U.S. embassies and other facilities overseas. Yet only a small portion of these funds will be used for USAID security.

I understand that after the bombing, you ordered a team of USAID security specialists to review USAID security worldwide. The team concluded, I am told, that a significant number of USAID Missions lack adequate security.

How much funding in the FY 99 security supplemental is allocated for USAID overseas security?

Answer. Two and one half million dollars in Economic Support Funds were directly appropriated to USAID in the security supplemental. All of these funds will be used for critical overseas security enhancements. Twenty five million dollars were appropriated to the Department of State for allocation to USAID for security in the supplemental. When these funds are allocated, they will be applied exclusively toward overseas security.

Question. It is my understanding that USAID's request for Fiscal Year 2000 contains no additional funds to pay for security upgrades at its missions overseas. Is that correct? Which USAID facilities overseas are in need of substantial security upgrades and what are the costs associated with these upgrades?

Answer. USAID's FY 2000 OE budget request contains only funding for normal operational activities of the Office of Security.

Nine overseas USAID facilities are in need of substantial security upgrades. The costs are estimated by the USAID Office of Security at approximately $2.4 million dollars. Replacement of all USAID overseas facilities with inadequate setback or other inability to achieve fully acceptable security would cost well in excess of $200 million.

Mr. Chairman, for Security reasons I would prefer to respond to any request from the Committee for details about specific posts or specific vulnerabilities in a separate classified venue.

co-location

Question. State Department guidelines regarding the co-location of U.S. government facilities overseas, which states:

``All U.S. Government offices and activities, subject to the authority of the chief of mission, are required to be co-located in chancery office buildings or on a chancery/consulate compound.''

What is USAID's official agency-wide policy regarding co-location?

Answer. It is the Administration's policy to co-locate all U.S. Government agencies overseas. Only where there are persuasive operational or security reasons for veering from that policy would a request of a co-location exception be sought or approved. Where new embassy facilities are being constructed and where USAID has a presence, plans should include office space for USAID personnel. The Department of State and USAID are working together to determine appropriate procedures to identify incremental costs occasioned by co-location.

Question. What is USAID's policy regarding co-location of its missions in Kenya and Tanzania?

Answer. USAID has agreed and is committed to co-locate with the Department of State in the New Office Buildings (NOB) planned for both

Nairobi and Dar es Salaam. USAID is working closely with A/FBO on the design phase through their respective NOB project teams. USAID is also committed to NOB co-location projects in Phnom Penh, Kampala, and Zagreb and is also represented on these project teams.

Question. What is the total cost anticipated with the co-location in Kenya and Tanzania?

Answer. A/FBO is currently estimating USAID's participation will cost approximately $25 million for Nairobi and $16 million for Dar es Salaam. A/FBO's efforts to develop the final cost figures for all NOBs are still ongoing. Cost figures are based on the construction of USAID buildings on land owned by the Department of State.

Separate Interim Office Buildings (IOB) are planned for USAID and the Department of State in Nairobi until such time as the NOB can be completed. USAID costs for the IOB are included in the FY 1999 security supplemental.

``y2k''

Question. I guess it depends upon who we listen to when considering just how bad USAID's problems are in meeting OMB's requirements that Federal Agency computer systems be Y2K compliant by March 31.

OMB paints a fairly bleak picture. At one point, OMB had certified that 5 of USAID's 7 computer systems were Y2K compliant. But in its March 18 report, it claims that USAID has actually backtracked and that today only 4 of 7 systems are compliant.

Our colleague on the Government Reform Committee, Mr. Horn, gives USAID even worse marks. According to Mr. Horn's analysis, USAID is the only major federal agency to receive a failing grade on every Y2K report card in the past year.

When can we realistically expect all of USAID's ``mission critical'' systems to be fully functioning?

Answer. USAID has held itself to the highest possible standards on Y2K compliance, because of the significance of sustaining support for our program operations. On this basis we will only claim successful implementation of our mission critical systems when the Y2K compliant versions are fully installed at our overseas locations and ``end to end'' testing on all related components has been accomplished. The Agency has multiple teams verifying each aspect of our Agency systems is Y2K ready in its parts and working together.

The Agency has a total of seven mission critical systems, two of which are being replaced. Of that number, five mission critical systems are being repaired for Y2K compliance including: personnel, time and attendance, payroll, field accounting and the New Management System (NMS). The largest, and most complicated of these mission critical applications is NMS, which supports headquarters financial management, acquisition & assistance, budget and operations.

USAID plans to complete Y2K testing and implementation of NMS, its last mission critical system, at the end of July 1999.

Question. Given that USAID operates in more than 80 countries, what happens if the host country is not prepared for Y2K--will that affect your overseas missions' ability to operate in the new year?

Answer. USAID has sent technical teams to 50 countries to examine this question and better understand what the impact of Y2K will be on the work of the Agency abroad through its missions. The state of readiness differs for each country and sector we have studied. Unfortunately our studies and analyses of others cannot quantify how long and how widespread expected Y2K disruptions will be.

The foreign affairs community has placed emphasis on dealing with the consequences of Y2K given the uncertainty about this problem and

the fact that many of the potential causes of Y2K disruption affecting USAID program activities are beyond our control.

Internal Agency Y2K business continuity planning for its mission critical systems focuses on three critical functions including payments, obligations and funds control which are important to sustain operations.

USAID is also a member of Embassy Y2K Committees in each host nation where Agency missions are located. As the Secretary of State directed, our Agency officers are also joining with other federal managers to analyze the impact of Y2K readiness in countries where the U.S. government is present and to prepare contingency plans where appropriate.

Question. Please explain USAID's 5 percent Y2K ``surcharge'' on USAID program activity. Which bureaus and programs are affected?

Answer. USAID has set aside 5% of its development assistance funds in FY 1999 to ensure we deal with the Y2K-related issues within our development portfolio. Funds will be released when there is assurance that Y2K problems affecting critical development programs are being addressed in a prudent manner. Once we obtain assurances from the responsible Agency executives that all Y2K issues are being prudently addressed, the remaining Y2K set aside funds will be released. We are still conducting field assessments of the magnitude of potential Y2K problems and thus do not yet know how much of the Development Assistance Y2K resources that have been set aside will be needed for Y2K upgrades and contingency planning. We believe that in at least some cases the amount required will be substantially less than the amount set aside.

Bureaus affected by the Y2K set aside include the Bureau for Africa, the Asia and the Near East Bureau, the Latin America and the Caribbean Bureau, the Global Bureau and the Bureau for Humanitarian Response.

operating expenses

Question. USAID has requested $507,739,000 for its Operating Expenses for FY 00. In addition, USAID intends to have available more than $56 million from other sources, including $350,000 from so called ``program funds used for OE'' (According to page 165 of USAID's CPD).

For FY 99 USAID estimates more than $35 million, and for FY 00, USAID estimates more than $33 million. What does USAID estimate are the recurring amounts available in future years from local currency trust funds?

Answer. It is anticipated that the availability of local currency trust funds will continue to decline by about $2 to $3 million per year during the next 3 to 4 years. Programs funded from Economic Support Funds (ESF) generate most of our local currency trust funds. As ESF funds for non Camp David countries continue to decline, local currency trust funds decline as well.

Question. USAID is requesting $168,960,000 for ``compensation--full-time permanent'' staff for FY 00. Will this amount avert the need for any reduction in force in FY 00?

Answer. The costs referred to are just one element of the cost of maintaining the Agency's workforce. In addition to these costs there is the cost of part-time and temporary personnel, benefit costs such as retirement, rental of office and residential space, and other critical support costs. I can assure you that if our request, of which the $168 million is a part, is approved, we will not have a reduction in force (RIF), even though we will continue to reduce staff.

staff reductions

Question. Brian, in your testimony, you state that for a variety of reasons, it will be ``. . . necessary for us to reduce U.S. direct hire workforce levels'' this year. I note that your Operating Expense funding level is a 2 percent increase above the current level, which is not a great amount, but an increase nonetheless.

Can you tell us exactly what this means? Do you intend to initiate a Reduction-in-Force (``RIF'') to meet your staff reduction targets?

Answer. Out of this 2 percent increase we will have to fund the FY 2000 impact of the 3.68 percent FY 1999 Federal pay raise and an anticipated 4.4 percent FY 2000 Federal pay raise. In addition, we will have to cover cost increases worldwide caused by inflation--which is much higher in the countries in which we operate than it is in the U.S. Because of the need to cover these types of cost increases, all of which are rising at higher than 2 percent annually, we will have to further reduce our staffing levels, even with a 2 percent increase in funding. Our plans do not include a reduction-in-force. We intend to handle necessary workforce reductions through managed attrition and staff reconfigurations.

Question. Why didn't USAID request the Operating budget necessary to meet its anticipated needs?

Answer. This request reflects the need to continue to keep the overall Federal budget under control and meet various Administration priorities in other areas. We are examining methods of operating which will enable us to provide essential oversight of Agency activities with the reduced workforce levels necessitated under this request.

Question. What other options are available to you to meet your budget shortfall?

Answer. The only other means of obtaining funding to meet Operating Expense requirements would be the use of appropriation transfer authority. However, this would be considered only if overall funding available to cover our operating costs were to be so low that the only alternative would be a RIF.

usaid new management system

Question. Brian, we need not revisit the entire tortured history of your New Management System, except to say that you have spent $100 million on the project and the system still does not work properly. In fact, USAID is not expected to be able to produce an unqualified audit of its books until 2003. Not surprisingly, there is not a lot of confidence on Capitol Hill in USAID's bookkeeping.

Can you tell me when USAID will have an accounting and financial computer system functioning so that we can all be confident that our foreign aid program is not subject to widespread waste, fraud, or abuse?

Answer. We have a clear vision of an integrated management information system that will meet our needs into the 21st century and improve compliance with financial management and other system requirements. The Chief Financial Officer is taking the lead in ensuring the successful planning, acquisition, and implementation of financial system investments, and is working closely with the Chief Information Officer to ensure that the new system meets information requirements and user needs. Our information technology resources for this year and next are largely focused on completing and maintaining current systems to support Agency operations until new systems are in place. We have a three-pronged strategy to correct the deficiencies. We are purchasing an off-the-shelf core accounting system, using services from other government agencies, and contracting some functions out to

the private sector. We completed a business process improvement analysis, which is helping to define functional requirements for the accounting system. We expect to acquire the new system this fiscal year, and will implement it in Washington and in field missions during fiscal years 2000 through 2002. Also, an information technology architecture or blueprint will be completed in sufficient detail to ensure that the new accounting system will support the Agency's business needs and work properly with other components and systems that will be improved or replaced as necessary.

Question. What will be the total cost to make this system operational?

Answer. Estimated total cost of implementing the new financial system is $22.6 million exclusive of recurring maintenance costs. Of this estimated total, $2.9 million is required for analysis and planning, $3.5 million for acquisition, $10 million for USAID Washington implementation, and $6.2 million for overseas deployment.

Question. What is the total amount USAID has spent so far on the NMS?

Answer. Cumulative obligations for NMS stand at $104.7 million spanning seven fiscal years which comprises $75.8 million in development costs and $28.9 million in maintenance and operations costs. This includes $12.9 million in FY 1999 obligations to date for Y2K repairs, maintenance and operations.

child survival/child labor

Question. Mr. Atwood, I am interested in the Administration's new campaign to fight child labor, which you call the ``No Sweat'' initiative. I applaud the goal, but I also remind you that this Committee last year directed USAID to undertake up to $5 million in anti-child labor programs within the Child Survival account. What programs is USAID implementing with FY 1999 Child Survival funds in this area?

Answer. The term ``No Sweat'' has not generally been used to describe USAID's activities. Rather, it refers to the Department of Labor's domestic campaign to inform Americans about sweatshop issues in the United States, with such topics as employment of illegal immigrants and child labor.

In FY 1999, in conjunction with the $98 million investment in Basic Education, USAID is also supporting programs totaling a projected $6 million, to deal with child labor issues in five countries: Brazil, El Salvador, the Philippines, Bangladesh, and Nepal. USAID support in these five activities is through locally based Non-Governmental Organizations, supported by American Private Voluntary Organizations. These programs provide educational opportunities for out-of-school children.

Details on these and other programs under consideration may be found in the ``Basic Education and Child Labor Report'' (see attached), a USAID Briefing Paper provided April 1, 1999 to the Senate Appropriations Committee, Foreign Operations Subcommittee.

[GRAPHIC(S) NOT AVAILABLE IN TIFF FORMAT]

child survival

Question. How will the Administration's ``No Sweat'' initiative compliment the anti-child labor programs this Committee has already instructed USAID to undertake?

Answer. The Department of Labor's ``No Sweat'' initiative is primarily a domestic campaign using a netsite to inform Americans about

sweatshop issues in the United States, with such topics as employment of illegal immigrants and child labor. USAID's ``School Works!'' will focus on basic education as one strategy to battle abusive child labor in the developing world. USAID intends to review the ``No Sweat'' initiative to find out to what extent we might take advantage of their website to inform the American public on our complimentary work overseas.

maternal health

Question. The fiscal year 1999 Senate Foreign Operations Committee report contained language recommending that not less than $50 million be spent on a maternal health initiative.

How does USAID intend to respond to the Committee's direction for FY 99?

Can USAID provide a geographic breakdown (by country and region) of how these funds are expected to be spent in FY99?

What amount does USAID intend to spend on maternal health in FY00?

Answer. In FY 1998, USAID spent approximately $50 million on activities funded through the Child Survival and Diseases Account that improve maternal health for child survival. Additionally, USAID spent approximately $7 million, through the same account, on activities that improve maternal survival. Also in 1998, USAID revised its strategy for reducing maternal and newborn mortality. USAID now focuses more attention on interventions that improve the survival of the mother-infant pair, specifically the treatment of complications of pregnancy, safe delivery, postpartum and newborn care, maternal/newborn nutrition and birth preparedness. USAID expects to spend approximately the same overall amount in FY 1999, through the Child Survival and Disease Account, to improve the survival of mothers and newborns.

In FY 1998, of the overall total ($57 million) spent for maternal/newborn health and survival through the Child Survival and Disease Account, 39 percent was through the Africa Region (AFR), 47 percent was through the Asia and Near East Region (ANE), 9 percent was through the Latin America and Caribbean Region (LAC), and 5 percent was through the Global Bureau (G). In FY 1998, countries with major thrusts to reduce maternal mortality included: AFR--Zambia, Uganda, Mozambique; ANE--Morocco, Egypt, Cambodia, India, Nepal, Indonesia; LAC--Nicaragua, Bolivia, Guatemala, El Salvador; plus regional activities in Latin America and Africa. In FY99, approximately the same geographic breakdowns for funding are anticipated.

At this time, funding for maternal/newborn health and survival is anticipated at approximately the same levels for FY 2000.

biodiversity

Question. Within its Development Assistance budget, USAID has reduced funding for biodiversity from $105 million in 1995 to about $55 million in 1998. What has been the effect of this decline in spending on biodiversity and on USAID's ability to meet its strategic goal of ``protecting the environment for long-term sustainability''?

Answer. Biodiversity, like many other USAID development sectors, has suffered the consequences of the Agency's significantly reduced discretionary budget. The Agency maintains an important leadership role in biodiversity and continues to provide the intellectual direction that catalyzes other donors to adopt successful USAID conservation strategies and methodologies. However, the cumulative effects of budgetary declines will impact the Agency's ability to address threats to biological diversity. For example:

From 1995 to 1997, the number of missions pursuing biodiversity strategic objectives fell from 29 to 24 and

existing programs in biologically important countries and regions have been scaled back due to declining budgets.

Targets under a new global program designed to introduce innovative techniques to conserve a representative array to the world's ecosystems fell from 15 globally significant sites scheduled to be placed under improved management to seven sites following budget reductions.

Question. How much does USAID plan to dedicate to biodiversity programs in fiscal year 1999? What is USAID's budget request for biodiversity for fiscal year 2000?

Answer. In FY 1999, USAID has budgeted approximately $68.0 million in the Development Assistance account for biodiversity including funding for related directives such as neotropical birds, Parks in Peril, and the new McConnell Fund. The level for biodiversity in the other program appropriations will be available as soon as the Agency's emphasis area coding is complete.

USAID's FY 2000 request did not establish a specific funding level for biodiversity--but we consider it an important component of our environment program, for which we have requested a level equal to our FY 1999 request of $290 million.

status of usaid's new coding system

Question. What is the status of USAID's new coding system that is designed to better track exact spending levels within various sectors? Is USAID now able to code biodiversity spending? What is the Agency's definition of ``biodiversity'' for the purpose of coding?

Answer. The new streamlined, PC-based, and much more user friendly coding system has been launched. Revised codes, definitions and software were provided to USAID missions and Washington offices at the end of January 1999. Missions and Washington offices are coding FY 1998 obligations, FY 1999 allocations, and FY 2000 planned obligations into the system.

Biodiversity is included as part of the codes. The definition that is being used is as follows: ``Activities designed to support the conservation and sustainable use of biological diversity (biomasses, ecosystems, species, or genetic diversity) by identifying needs; by designing, implementing and monitoring conservation and management actions; through research and training; or through institutional strengthening, policy interventions and program development.''

biodiversity (reduced funding for environment/natural resources)

Question. Why did USAID reduce funding for its Office of Environment and Natural Resources, within the Global Bureau, from more than $10 million to less than $7 million in FY 99?

Answer. The Agency maintains a strong commitment to environment programs overall, including biodiversity programs. In FY 1999, we intend to commit a total of $248 million for environment programs. In FY 2000, our request includes $290 million for the environment.

We agree that USAID central offices, such as the Office of Environment and Natural Resources, play a key role by designing and leveraging funds for projects and programs that USAID missions often adopt and help fund. Because of their past good work, this year we saw a major increase in bilateral programs in Africa and Latin America and the Caribbean funded by USAID missions. As part of a shift in programming priority from USAID headquarters to the missions, the Energy Office budget was reduced by 10% and both the Natural Resources and Urban Programs offices were reduced by approximately 30%.

For FY 2000, $9 million has been requested for the Office of Environment and Natural Resources.

Question. For FY 99, does USAID intend to reduce funding for environmental programs in Nepal below its FY 98 level? How much funding is USAID requesting for FY 00 for Nepal environmental programs?

Answer. USAID requested $3 million for the environmental programs in Nepal in FY 99, $0.7 million above the FY 98 level. Since ANE's overall amount of FY 99 discretionary funding was limited and there were significant demands for these funds for Indonesia and the response to the Asian Financial Crisis, ANE was able to allocate only $1.2 million for environmental programs in Nepal, a reduction from FY 98 levels. Although ANE expects the availability of discretionary funds to be even more constrained in FY 00, USAID is requesting $1.5 million in environmental funding for FY 00 for the Nepal program.

centrally funded programs

Question. The following Centrally Funded programs justified in USAID's fiscal year 2000 congressional presentation document appear more directed toward to the activities within USAID, rather than those designed to assist people in developing countries. These projects' goals include: Project 936-SS03 ($775,000 DA): Number of [USAID] field missions using improved management software; Number of [USAID] mission strategic objective teams applying technical assistance in training ``best practices''.

Why does USAID use more than $13 million of its program budget resources for projects that are designed primarily to benefit USAID as an organization rather than to assist directly those in need?

What direct benefits do these projects provide to the people in developing countries?

Answer. The Global Bureau activities cited in Project 936-SS03 ($775,000 of the $13 million under question) are designed to make highly decentralized training activities more effective. Training host country professionals is the key to sustaining the impact of USAID's fieldwork, and is undertaken in every field mission in almost every project. Training activities require some level of central monitoring and management for two reasons: (1) to provide accurate aggregate reporting on training to the U.S. Congress and to USAID's Executive Branch partner agencies via the Interagency Working Group on U.S. Government-sponsored International Exchanges and Training (IAWG); and (2) to assure the uniform application of optimum training practices in the interest of Agency-wide cost efficiency.

Direct benefits to people in developing countries from the two cited activities of training management software (TraiNert) and technical assistance to field missions in training best practices include: (1) improving consistently the skills and knowledge of host country professionals sponsored by USAID for training, and (2) ensuring that trainees' performance back at the work-site is improved as planned.

Question. The following Centrally Funded programs justified in USAID's fiscal year 2000 congressional presentation document appear more directed toward the activities within AID, rather than those designed to assist people in developing countries. These projects' goals include:

Project 930-SS01 ($2,440,000 DA)

``Number of USAID operating units that address gender-based constraints in economic growth strategies.''

Project 930-SS04 ($2,700,000 for FY 00)

``Greater reflection of gender considerations in the Agencies Work.''

``Improved Agency policies and organizational capacity to

address gender issues.''

``Improved incorporation of gender considerations in the design and implementation of Washington-based programs.''

``Improved coordination of gender considerations in the design and implementation of field programs.''

`Improved coordination with international community.''

1. Why does USAID use more than $13 million of its program budget resources for projects that are designed primarily to benefit USAID as an organization rather than to assist directly those in need?

2. What direct benefits do these projects provide to people in developing countries?

Answer. Two of the Centrally-funded programs in question (Project 930-SS01 and 930-SS04) cover the work of USAID's Office of Women in Development (G/WID) and reflect the mandate of that Office to help integrate gender throughout USAID programs, rather than directly fund small women-focused projects. It is through mainstreaming of gender concerns in all our activities that we see direct and substantive impacts on women.

USAID is making excellent progress in achieving such integration of gender concerns. In virtually all USAID field Missions there is a notable increase in the extent to which a main consideration in programming is whether and how programs will affect women. In each region of the world, we have seen positive impacts on the status of women. In Africa, for example, gender is well integrated into our economic growth and agricultural development programs and women comprise a substantial proportion of program beneficiaries. In Asia and the Near East, USAID basic education programs have helped reduce the difference between boys' and girls' enrollment rates. In Europe and the New Independent States, we are working in close collaboration with the Department of State to address the severe and widespread problem of domestic violence, and the growing phenomenon of trafficking in women. In Latin America, women constitute the majority of the beneficiaries of our judicial services centers.

These are just a few examples of the many ways in which we are addressing gender throughout USAID programs. Moreover, we continue to move ahead in the implementation of our Gender Plan of Action. In the next several weeks, the USAID Office of Procurement will issue a contract information bulletin (CIB) to guide all contract officers as they work with technical officers in the implementation of the procurement related items in the Gender Plan. Through this and other actions, we are sending a strong message that our collaborators and contractors must improve their gender expertise in order to be responsive to USAID policy and programming procedures. Our success with the Gender Plan--and, more generally, our programming to improve the lives of women--is documented in a report that we recently submitted to the Congress. I would be pleased to make a copy available to you.

Question. Why does USAID use more than $13 million of its program budget resources for projects that are designed primarily to benefit USAID as an organization rather than to assist directly those in need? What direct benefits do these projects provide to people in developing countries?

Project 930-SS02 ``Managing for Results courses held to train Agency staff.''

Answer. These courses were listed as an indicator of the success of our efforts to institutionalize managing for results systems in USAID. USAID does not use program funds to actually carry out the training. The courses are currently implemented with USDH trainers whose travel

and other expenses are paid through the Agency's operating expense budget. PPC does use program funds to develop a coherent and effective Agency system for planning, measuring, evaluating and reporting results, which in turn assures better, stronger programs. To date, there have been six Managing for Results courses that have provided USAID staff the tools, skills, and knowledge to more effectively carry out programs that benefit the poor in developing countries.

Question. Why does USAID use more than $13 million of its program budget resources for projects that are designed primarily to benefit USAID as an organization rather than to assist directly those in need? What direct benefits do these projects provide to people in developing countries?

Project 930-SS02 Country impact evaluations completed

Answer. Country impact evaluations are designed to directly improve the effectiveness of USAID programs in developing countries. They analyze program efficiency and effectiveness to identify which strategies, programs and activities work well and which don't. They are based on a broad retrospective of USAID's experience, rather than results from a single program or country. Impact evaluations directly improve the effectiveness of USAID programs in developing countries in the following three ways: (1) First, they inform and influence major Agency policy and programming decisions by drawing lessons from experience; (2) Second, they assist in shaping operational decisions at the individual activity level by assessing activity performance and effectiveness; (3) Finally, evaluations support the accountability of Agency management by documenting impact. Ultimately, they improve the quality and effectiveness of USAID programs in the field.

development credit authority

Question. In its FY 2000 budget, USAID is requesting $15 million for its Development Credit Authority. This is in addition to the $7.5 million Congress made available two years ago for this purpose. I am aware that prior to conducting any program, USAID must be certified by the Office of Management and Budget that it has met a number of accounting requirements.

Now, I am skeptical of this entire scheme. I worry that while on one hand, the Administration is requesting funds to reduce or cancel debt owed to us by various foreign aid recipients, and on the other hand, USAID wants to begin new loan programs in countries like the Dominican Republic, Ethiopia, the Philippines and others.

Can you give the Committee an update on the Office of Management and Budget's (OMB's) approval of the Development Credit Authority? Has OMB signed-off on USAID moving forward with this plan?

Answer. On April 30, OMB notified USAID and Congress that the Agency had sufficiently addressed all outstanding issues related to its ability to issue and manage credit programs.

During this process, USAID took a number of steps to ensure proper risk analysis and credit management. For example, USAID outsourced its loan servicing functions to Riggs Bank. Riggs, working with USAID staff, developed a loan servicing and tracking system, which OMB found more than satisfactory. USAID also created a DCA Team comprised of Agency experts in credit analysis and loan management. The Agency will bolster that team with new hires who have specific background in credit risk analysis and loan management. The DCA Team assists missions in their DCA-funded project development activities.

One of the most important guiding principles on the use of DCA is that USAID will no longer assume most of the financial risk for credit activities. DCA requires sharing risk with other financial institutions

that meet rigorous risk analysis criteria.

development credit authority (new loans)

Question. How does USAID justify extending new loans to certain developing countries, while the Administration is also seeking to forgive existing debt owed by other developing countries?

Answer. DCA is intended for non-sovereign lending. Under the regulatory reforms that govern DCA, only a handful of USAID-assisted countries would be sufficiently creditworthy to qualify for sovereign risk credit assistance. Instead, DCA credit assistance is intended for credit enhancement purposes in cases where the borrowers are non-sovereign entities and the lenders, with whom we partner, take more than 50% of the risk. Because they will not be 100% guarantees, USAID will not have any new assets to forgive.

USAID is and will remain essentially a grant agency. However, we have found that credit enhancement can be a powerful and effective development tool. Our need for credit authority is driven solely by our successes in promoting private sector-led development principles and our need for a financial tool to encourage local credit markets and local lenders to participate in the development process.

development credit authority (loans to countries receiving debt forgiveness)

Question. Is USAID going to consider making loans to any country that has received debt forgiveness or reduction in the past 5 years?

Answer. USAID does not intend to offer credit assistance to any country that has received USG debt forgiveness or reduction in the past five years.

Question. How is the new loan program consistent with the plan just announced by the President to provide further debt reduction for poor countries?

Answer. There is no relationship between our Development Credit Authority (DCA) request and the President's debt reduction initiative for the poorest countries. The risk assessment models that USAID now uses to determine the subsidy cost of each credit activity will tend to preclude the use of DCA credit assistance in the poorest countries even where the borrowers and lenders are wholly private sector entities. This is due to the heavy weight given to the overall credit worthiness of a country in our risk assessment models. Most DCA credit assistance will be in the form of partial loan guarantees (less than 50% risk sharing) of local currency loans made by private banks at market rates to private sector borrowers. DCA credit assistance will be directly in support of the strategic objectives of our country missions and are intended to support and reinforce specific grant-financed policy and institutional reforms.

development credit authority (administrative expenses)

Question. How will the proposed $2 million is administrative expenses be utilized?

Answer. In order to comply with the Credit Reform Act we have requested this $2 million to be used for DCA administration related expenses. This includes, among other things, conducting credit risk analyses, financial monitoring, and providing expert credit staff assistance in the development of DCA funded projects to our overseas missions. In addition, these funds will be used to develop and conduct staff training programs on the prudent use of credit, and the contracting of industry and sector specific specialists to assist us in determining the financial viability of proposed projects.

development fund for africa

Question. Since I became Chairman of this Subcommittee, I have

consistently fought against the practice of ``earmarking'' funds. We even succeeded last year in eliminating from the House bill the decades-old earmarks for Israel and Egypt. I believe, Mr. Atwood, you too have generally been opposed to earmarks. After all, they reduce the Executive Branch's flexibility.

That is why I am puzzled that USAID is this year proposing the re-creation of its ``Development Fund for Africa'' to be funded at $512 million.

Given the severe funding restraints this year's bill will likely face, why do you propose earmarking funds for Africa at the expense of other regions of the world?

Doesn't a regional account like DFA reduce your flexibility?

Why are you not proposing a ``Development Fund for Latin America'' to protect funding to this region?

Answer. The Administration has asked for funding for the Development Fund for Africa in its FY 2000 request to signal the Administration's commitment to returning our funding for assistance to Africa to historic levels, as announced during the President's trip to Africa last year. The DFA symbolizes the importance of sub-Saharan Africa to U.S. National Interests. It builds on our past success in helping Africans to integrate into the global economy. In addition, it acknowledges the transnational threats emanating from countries that are wrestling with pandemics such as HIV/Aids, and other destabilizing forces. The DFA emerged from a strong consensus in the last decade that our relationship to Africa was changing as new leadership and new opportunities were manifested. The need is even more pressing today, as ethnic strife, global financial crises, and the burden of debt service--challenges throughout the developing and newly industrialized world--simply can't be ignored in Africa without long term risk to U.S. National Interests.

USAID does not propose using a special fund to signal the Administration's commitment to Latin America. That has already been achieved through the Summit and post-Summit processes that have kept Latin America high on this Administration's agenda. The recent joint congressional and Administration effort to appropriate $621 million for disaster reconstruction further confirmed our strong support for the region. Finally, our partnership with Congress has ensured that during difficult budget times, Latin America received the necessary funding to continue our critical programs in the region.

south africa

Question. When USAID began its programs in South Africa in 1994, the plan was to ``graduate'' South Africa from foreign aid by 2005. Since that time, USAID has provided more than $700 million in aid to South Africa. And since the overall Africa budget has not increased, many other less developed African countries have seen USAID funding reduced to pay for programs in South Africa.

I understand that USAID has extended its programs in South Africa for several more years.

What is USAID's justification for extending the program?

Answer: During the first year of the Mandela administration, the Government of South Africa was deeply occupied by dismantling the apparatus of the apartheid regime, writing a new Constitution which emphasized the protection of individual rights and developing new departments and policies to assure non-discrimination and equal access to public services. A great deal was required, too, in assuring establishment of a viable, pluralistic democracy, in reducing political violence and in reconciliation of South Africa's multi-racial

population.

Since 1994, much has been accomplished. South Africa has introduced appropriate policies and legal frameworks and restructured the basic institutions of government. There has also been progress in making basic services available to people, but there is still a long way to go. And, South Africa's extraordinary development problems persist:

75% of South Africans, the disadvantaged poor, do not have access to adequate housing, basic services and economic activity;

Economic activity is insufficient to keep from losing ground; growth slowed from 3.3% in 1994 to less than 1% in 1998: 500,000 jobs have been lost; unemployment is 23-24% (60-70% among youth in townships);

Education of South Africans for employment and opportunity is slowed by the manpower constraints in education; and

The rate of spread of HIV/AIDS may be the fastest in the world (1500 new cases daily).

South Africa's capacity to redress these problems has been overestimated.

Ensuring successful transition to a pluralistic, market oriented, sustainable democracy in South Africa is in the U.S. interest--both to sustain the expansion of democracy in the region and because the region is so intimately linked with South Africa's economy. South Africa plays a unique role in fostering political and economic stability in Africa. The success or failure of its political transition and economic policies has a multiplier effect throughout the region. While continuing our support to South Africa means in the short-term there will be fewer resources for the rest of Africa, by targeting limited resources for the broadest impact, we are maximizing the benefits of U.S. dollars to the entire region.

Question. Who in the Administration made this decision?

Answer. The USAID program and continued presence in South Africa is strongly supported by both the Department of State and USAID. In January, 1999, U.S. Ambassador to South Africa James Joseph and USAID Assistant Administrator for Africa, Vivian Lowery-Derryck met with Deputy President Thabo Mbeki to discuss the future of the USAID program in South Africa. At that meeting there was a clear articulation of the need for USAID presence to continue beyond the end date of FY 2005. The Deputy President specifically mentioned priorities of state administration/governance, job creation, housing, education and rural development as needs to be addressed. It was further agreed that the program details of the extension would stem from joint consultative process between USAID and the Government of South Africa following consultation by USAID with other agencies of the Executive Branch and the Congress.

Question. Given that USAID was planning to close out its program in 2005, what is the new estimated date on which USAID [will cease] its program in South Africa?

Answer. An extension of three to five years beyond the FY 2005 end date is contemplated, with a further evaluation to occur in FY 2005.

Question. What impact will extending the South Africa program have on other USAID programs elsewhere in Africa?

Answer. The potential impact of a stable and economically robust South Africa is enormous as is the negative impact that would result from a stagnant or failed economy and political instability. While South Africa is economically ahead of its neighbors, it still faces significant challenges. Because of protected industries and missed

opportunities in the past, it has yet to be integrated into the global economy and is currently experiencing an economic recession. USAID assistance is building a cadre of capable economists and financial managers able to address these challenges. As a key partner, the U.S. has already invested heavily in the post transition era, and it is critical that we remain engaged in supporting South Africans to forge a model of economic growth, political participation and social well-being that will influence their neighbors in the region.

agriculture funding

Question. This Subcommittee has been a long-standing proponent of agriculture development. We know how effective it is in helping the people of the developing world, as well as our farmers and agribusinessmen here in the United States. For the past two years, this Committee has included strong report language in support of increased funding for agriculture development. The Subcommittee is pleased to see agriculture development as one of USAID's primary goals in its work in developing countries.

That being said, the Subcommittee is concerned that Agency has not specifically announced its proposed funding levels for agricultural development for FY 00. We understand that despite assurances otherwise from you, Mr. Atwood, the funding level this year will likely be lower than the $305 provided last year.

What is USAID's specific budget request for agriculture development in FY 00?

Answer. USAID's FY 99 Development Assistance budget for agriculture is expected to be $134,500,000. There are some accounts, such as Economic Support Funds (ESF), the Support for Eastern European Democracy Act (SEED) and support for the New Independent States (NIS), which are jointly managed with the Department of State. When these amounts are included, USAID, FY 99 budget for agricultural activities is estimated to be $339,400,000. This is greater than the $305 million, which we obligated in FY 98.

USAID's Development Assistance request for agriculture development in FY 00 is $147.9 million. This reflects a $13.4 million increase over the FY 1999 level. Our FY 00 request level from all accounts for agriculture is $306,000,000. As Missions develop their programs, this amount is likely to be modified somewhat.

Question. How does USAID intend to continue to provide funding to agriculture development programs that have traditionally received it?

Answer. USAID will strive to maintain support to its traditional partners, e.g., the U.S. university community, the International Agricultural Research Centers, and the NGOs that emphasize the linkage between agriculture, economic growth and food security. USAID will continue to work closely with various U.S. private agricultural interests to develop stronger public-private partnerships that can increase the development impact of investment for both sides, and also gain access to markets for U.S. business. Our agricultural partners are also giving increased attention to the alleviation of malnutrition, the number one cause of early childhood mortality. Several innovative programs emphasizing sustainable food-based approaches to improved nutrition offer considerable potential to improve child survival.

oti funding increase

Question. How do you justify this increase in OTI's portion of the Disaster Assistance Account?

Answer. The proposed FY 2000 funding level for OTI is the same as the actual program appropriated by Congress in FY 1999. However, the FY 1999 level was divided between International Disaster Assistance ($40

million) and Development Assistance ($15 million). The same $55 million total is proposed for funding for FY 2000, entirely from the Disaster Assistance account. The Administration believes Disaster Assistance is the appropriate account for OTI.

During this decade, there has been a seeming by steady growth in the number and humanitarian impact of man-made disasters. Somalia, Sudan, Congo, Rwanda, Bosnia, Sierra Leone, Liberia, Haiti, Afghanistan, Angola, North Korea, Indonesia, Ethiopia, Eritrea, and now Kosovo are examples. Some of the man-made disasters have been sparked by a natural disaster such as a drought or flood, but in all cases, some form of political or ethnic crisis has intensified the humanitarian impact of the disaster. Providing effective relief and assistance, which can help ensure a successful transition to sustained recovery in these complex disasters, often requires interventions different from traditional disaster relief. For example, demobilization of soldiers; demining of critical areas; assuring effective community participation in small-scale reconstruction projects; assistance to independent media and to civil society organizations to support peaceful, democratic transitions; and training of local officials and leaders in ethnic reconciliation are all examples of interventions which can be critical to successful disaster relief. Even in natural disasters such as Hurricane Mitch, there can be concerns, such as the potential for corruption, which can have a critical impact on the effectiveness of U.S. disaster response.

There are many explanations for why there are now so many complex disasters. Some believe the end of the Cold War removed the discipline of super-power competition, freeing the eruption of ethnic and civil conflict. Some believe the competition for resources in a world of rapid population growth is the cause. Whatever the explanation, there does seem to be a growing number of these complex disasters. The Office of Transition Initiatives (OTI) was established to develop expertise in response to such disasters. OTI has been successful in many interventions, from Rwanda to Indonesia to Bosnia to Guatemala. As a result, the prospects of successful recovery in these complex disasters have improved greatly.

The Administration believes the apparent need to deal effectively with complex disasters and the success of OTI's activities justify continuing activities at the $55 million level. At the same time, it is important to note that priority in use of funds from the International Disaster Assistance account will continue to go to life-saving disaster response. It is also important to note that this proposal does not reduce funding available for the Office of Foreign Disaster Assistance, which administraters more traditional disaster relief programs.

Question. Given that some of OTI's projects are designed to continue for several years, they are increasingly inconsistent with traditional disaster assistance programs (which generally are to assist in urgent humanitarian or man-made disasters). Would USAID object to this committee separating out OTI from the regulatory international disaster assistance account?

Answer. It is the opinion of USAID that OTI funding should continue to come from the International Disaster Assistance account. This will facilitate continued collaboration between the Office of Foreign Disaster Assistance (OFDA) and OTI; allow for better strategic planning; increase options for U.S. Government response to man-made disasters; improve efforts to link relief to development; and ensure that U.S. Government responses to man-made disasters are fast, flexible, and relevant.

For example, after the Quatemalan peach accords were signed in December 1996, the U.S. Government was one of the first donors to support the demobilization and reintegration back into civilian society of rebel and military ex-combatants. OFDA initially assisted OTI to establish camps for the demobilization process of almost 3,000 rebel ex-combatants. OTI focused on literacy and civic education programs, vocational training, scholarships, and other integration-related activities for the ex-combatants. Without OTI's assistance, the demobilization process would have been delayed; missing the tight timeframes set by the peace accords.

OTI has a defined, short-term target intervention timeframe. Both OTI and OFDA were created to respond quickly to urgent disasters, but at different phases in the evolution of the disasters and with different types of responses.

Through the special authorities of the Disaster Assistance account, OTI can respond quickly, flexibly, and appropriately to man-made disasters. Because OTI's mandate is to focus on advancing peaceful democratic change, it usually become involved in a man-made disaster as OFDA begins to phase out its relief efforts in a country or an area. This phasing of International Disaster Assistance allows the U.S. Government to transition assistance to disaster assistance and then (where possible) utlimatelty from development assistance. In a number of cases (e.g.) Angola, Bosnia, Liberia, and Rwanda--OTI and OFDA have worked in countries where conflict has led to ``man-made'' disasters requiring years of humanitarian assistance. OTI can be instrumental in helping countries move away from dependence on traditional disaster assistance. OTI does not design projects to continue for several years. Rather, activities are planned with a definite exit strategy in mind, normally two years or less.

oti funding by country

Question. Please provide the committee with a country-by-country breakdown of proposed OTI programs for fiscal years 1999 and 2000.

Answer. As discussed, OTI's mandate is to engage countries for a relatively short period of time to address traditional opportunities and challenges. (USAID Mission strategies tend to be more long-term in focus.) As a result, OTI does not establish fixed budgets for its country activities. Instead, OTI operates with constantly changing budget ranges for a given country. This gives the Office maximum flexibility to shift resources to where they are needed most. OTI works in some of the toughest, most dynamic environments in the world and must downsize or close out activities quickly if a given situation deteriorates (e.g., Democratic Republic of the Congo) or if more promising opportunities emerge.

OTI's budget for FY 1999 includes an additional allocation of $40 million from the International Disaster Assistance account, a $15 million Development Assistance earmark for Indonesia, and $1.2 million Disaster Assistance carryover from the previous year. Enclosed is OTI's most recent FY 1999 projection by country. Please note that there budget numbers continue to shift depending on changing worldwide conditions. For example, OTI's budget levels in Kosovo and Macedonia are uncertain this fiscal year, though the Office is intensely engaged in assisting the Office of Foreign Disaster Assistance with the humanitarian crisis and in helping the U.S. Government plan for crisis and post-crisis response.

OTI's FY 2000 request for $55 million in IDA funding would essentially ``straightline'' its FY 1999 budget, and would not result in expansion of overall activity. Given current international

conditions, OTI estimates it would operate in 12 to 15 countries with a $55 million budget. OTI anticipates that three or four of the highest priority countries would take up most of the FY 2000 budget, with approximately $8-$12 million in activities per country. Indonesia, Kosovo/Montenegro, and Nigeria could well be in that range next fiscal year.

[GRAPHIC(S) NOT AVAILABLE IN TIFF FORMAT]

Questions for the Record Submitted by Mr. Porter

armenia vs. azerbaijan funding

Question. The Administration has requested a decrease in aid to Armenia, despite that country's acceptance of the current OSCE compromise peace proposal regarding the Nagorno Karabagh conflict. This decrease is unacceptable--this country has been working for stability and peace and a reduction in the assistance will send the wrong signal and be devastating to Armenia as it continues its long struggle toward stable, independent democracy.

At the same time, the administration requested an increase in aid to Azerbaijan, which summarily rejected the current OSCE compromise peace proposal and at this time, is unwilling to even come to the table.

Are we rewarding this behavior? Our whole strategy for this region has been to get the opposing sides to the table. Are we abandoning this strategy? With the current funding proposals, it appears the Administration is doing just this. I hope you can provide me with a little insight on this new approach and what the goals are now.

Answer. There has been no change in U.S. Government strategy regarding Nagorno-Karabakh: we continue to focus on getting all parties to the conflict to the negotiating table.

Regarding relative Armenia and Azerbaijan levels in the Administration's request for FY 2000 funding, Armenia and Azerbaijan are important foreign policy priorities for the U.S., both geo-politically and in light of their potential roles in the Caspian energy equation. Maintaining adequate assistance support to both countries is an important factor in ensuring that U.S. priorities are met.

FREEDOM Support Act funding for Armenia over each of the past several years has been over $20 on a per-capita basis, or five times the per-capita levels (just over $4) provided to Azerbaijan. Even with the proposed FY 2000 funding levels, this relationship is not going to change significantly, maintaining assistance to Armenia at almost five times the per-capita level provided to Azerbaijan.

mongolia: fy 1999 oyb

Question. Throughout this current fiscal year, I have heard about many important programs that have been proposed for implementation in Mongolia. However, I am dismayed to learn that USAID may now only obligate $6 million for Mongolian assistance for FY99 and not the $12 million supported by Congress. Why this reduction?

Answer. In the allocation process, USAID and State sought to meet the request level supported by Congress, but due to many competing demands for FY 1999 ESF funds, only $6 million in NIS (FREEDOM Support Act) funds have been identified to date.

USAID has a continuing commitment to promoting sustainable development in Mongolia, as demonstrated by our approval on October 30, 1998, of a new, five-year Country Strategic Plan for Mongolia.

The $6 million allocated thus far in FY 1999 will allow USAID

Mongolia to initiate its new strategy but at a slower pace than at the $12 million level. At the $6 million level, USAID would have to scale back its planned assistance to the Government of Mongolia's economic reform efforts and its privatization program. At the lower level of support, we will run out of funds for these important programs by November 1999.

We understand State, through its internal allocation process, continues to seek additional funds for Mongolia for this year. We will learn of the outcome of their efforts in a few weeks.

In FY 2000, we anticipate that we will be able to provide a $12 million funding level for the Mongolia program and we have requested that amount under the Economic Support Fund for FY 2000.

tuberculosis

Question. I commend USAID in beginning the collaborative effort with other agencies, such as WHO, CDC and NIH in trying to prevent the spread of TB. I hope that USAID will be able to continue with this investment in FY2000 and work to limit the anti-microbial resistant strains of TB that are now developing, especially in the Russian prison system. Considering all that the U.S. has put forward in combating, at both the domestic and international levels, we must now make the most effective treatments global. At what level is USAID planning on funding the infectious disease program in FY 2000 and will this funding continue to be used in collaboration with CDC and NIH?

Answer. In FY 1998, USAID received $50 million for infectious diseases as part of the Child Survival and Disease Fund. This funding enabled USAID to support awards to both CDC and NIH to assist in the implementation of activities in infectious diseases.

The CDC component included an $8 million agreement between USAID and CDC to support work on malaria, surveillance, anti-microbial resistance, HIV-AIDS, and TB. The agreement included a $1 million award to provide worldwide technical assistance to identify national priorities, assess control efforts, and develop recommendations for effective and efficient use of resources to combat TB. This assistance will help tailor the use of the Directly Observed Treatment, Short-course (DOTS) strategy to the needs of individual countries.

The NIH component has resulted in a collaborative initiative between USAID and the Fogarty International Center at NIH. The initiative, funded at $375,000 per year, is designed to improve tuberculosis control through training, clinical and operational research, and innovative intervention studies in high incidence areas. The major priority of this initiative is to develop local strategies to improve TB control, which can be adapted in other high incidence areas.

USAID intends to continue its collaborative relationship with both CDC and NIH, as well as with other governmental and non-governmental domestic and international organizations over the next several years. Funds for FY 1999 will be allocated similarly to those of FY 1998, and if USAID's FY 2000 request is granted, allocations will be continued through FY 2000.

In addition to the Child Survival and Disease Funds, several million dollars from the NIS account in FY 1999 and 2000 will target infectious diseases, including the tuberculosis program in Russia. USAID/Russia is working closely with CDC to implement two DOTS pilot projects and an additional pilot project specifically targeting multi-drug resistant TB (MDR-TB) in Russia. These pilot projects will be monitored to ensure the effectiveness of the DOTS methodology in the Russian context prior to replication in other parts of the country. While USAID does not work within the Russian prison system, our efforts

in Russia are coordinated with those of our partners who focus on this area.

tuberculosis--stop tuberculosis initiative

Question. Yesterday was World TB Day. WHO proclaimed its commitment to the Stop TB Initiative. What is the role of USAID in the Stop TB Initiative?

Answer. USAID was instrumental in the development of the STOP TB Initiative, coordinated by WHO both programmatically and financially. The Agency continues to be the largest financial contributor to the Initiative and works closely with the coordinating committee members in the strategic planning of future activities. The Initiative has four components: Global Charter, Global Action Plan, Global Drug Supply Facility and Global Research Agenda. Although USAID intends to participate in all four components of the Initiative, efforts will focus most heavily on support of (1) the Global Action Plan to analyze political and technical constraints to action, identify roles of different partners, and guide investors in TB control toward rational solutions, and (2) the Global Drug Supply Facility which will provide universal availability of TB drugs in improved forms. USAID is also working with other international partners to increase support for the Initiative so that it may be a truly global program involving both developed and developing countries in its design and implementation.

biodiversity (reduction for programs)

Question. In late 1998, USAID proposed a 67% reduction in funding for biodiversity programs. However, after Congress and senior administration officials questioned this decision, the cut was reduced to 31%. In maintaining USAID's commitment to biodiversity conservation, the Office of Environment and Natural Resources plays a key role by designing and leveraging funds for projects and programs that the USAID missions often adopt and help fund.

Why was the FY99 budget for Office for Environment and Natural Resources (in the Agency's Bureau for Global Programs, Field Support and Research) cut from $10.3 million to $6.9 million (a 31% cut)? What is the proposal for FY 2000?

Answer. The Agency maintains a strong commitment to environment programs overall, including biodiversity programs. In FY 1999, we intend to commit a total of $248 million for environment programs. In FY 2000, our request includes $290 million for the environment.

We agree that USAID central offices, such as the Office of Environment and Natural Resources, play a key role by designing and leveraging funds for projects and programs that USAID missions often adopt and help fund. Because of their past good work, this year we saw a major increase in bilateral programs in Africa and Latin America and the Caribbean funded by USAID missions. As part of a shift in programming priority from USAID headquarters to the missions, the Energy Office budget was reduced by 10% and both the Natural Resources and Urban Programs offices were reduced by approximately 30%.

For FY 2000, $9 million has been requested for the Office of Environment and Natural Resources.

biodiversity (definitions)

Question. How does the Agency define/delineate biodiversity programs as opposed to other environmental programs it undertakes? What is the status of the Agency's new coding system that will reportedly track what portion of environmentally funds are spent on biodiversity and resource management?

Answer. The Agency recognizes that biodiversity activities and other types of environmental programs must often work together through

an integrated approach to achieve their stated objectives. For the purpose of program management, though, the Agency defines biodiversity programs as those activities designed primarily to support the conservation and sustainable use of biological diversity, including biomass, ecosystems, species, and genetic resources.

Other environmental programs are classified under sustainable natural resource management and have as their principal objectives activities that support: (i) the sustainable use of tree products and/or non-timber forest products; (ii) management of ground and surface water resources, including watersheds; (iii) the productive capacity of natural resources of specific agro-ecosystems; and (iv) the management or protection of the coastal and marine environment.

The Agency is currently collecting data for the coding system. The information is expected to be complete by the end of June, 1999.

biodiversity (funds declining)

Question. In the Development Assistance budget, funding for biodiversity has declined steadily from $105.89 million in 1995, to $57.3 million in 1998. What has been the effect on USAID's biodiversity programs?

Answer. Biodiversity, like many other USAID development sectors, has suffered the consequences of the Agency's significantly reduced discretionary budget. The Agency maintains an important leadership role in biodiversity and continues to provide the intellectual direction that catalyzes other donors to adopt successful USAID conservation strategies and methodologies. However, the cumulative effects of budgetary declines will impact the Agency's ability to address threats to biological diversity. For example:

From 1995 to 1997, the number of missions pursuing biodiversity strategic objectives fell from 29 to 24 and existing programs in biologically important countries and regions have been scaled back due to declining budgets.

Targets under a new global program designed to introduce innovative techniques to conserve a representative array of the world's ecosystems fell from 15 globally significant sites scheduled to be placed under improved management to seven sites following budget reductions.

indonesian elections

Question. Indonesia is scheduled to have historic parliamentary elections on June 7th, and it is my understanding that USAID has been providing assistance--through both Indonesian and U.S.-based non-governmental organizations--to support preparations for these elections. Statements by Secretary of State Albright and other Administration officials indicate that the U.S. is planning to spend approximately $30,000,000 in support of the June elections, and organizations such as the International Republican Institute, the National Democratic Institute, Internews, the Asia Foundation and the Solidarity Center have been provided USAID funding to help Indonesians prepare for the upcoming vote. Recently, Dr. Amien Rais--a leading Indonesian opposition figure--visited the United States and commented on the need for the United States to send stronger messages in support of the democratic development process in Indonesia. He specifically mentioned international observers as an important message-sending device.

Is USAID planning to fund U.S. observers for the Indonesian elections? If so, what type of observer mission does USAID foresee? If not, what is USAID's rationale for not utilizing this valuable means of expressing our support for and concern about the democratic development

of Indonesia?

Answer. Indonesia's national elections scheduled for June 7, 1999 will be the country's first competitive elections in more than 40 years. The challenges for the Indonesian Government and election administrators are daunting. USAID is pleased to be funding U.S. observers for this historic election. We believe that free and fair elections are of great significance for the political stability and economic recovery of Indonesia. USAID will be providing funding for the National Democratic Institute (NDI) to deploy about 80 U.S. observers. The International Republican Institute (IRI) has decided to fully engage their own internal staff on election day, as well as conduct pre-election assessments. Former President Carter will lead NDI's delegation.

women in development

Question. In addition to the funds provided to the Women in Development Office, please detail any additional funds going to other parts of the Agency that are contributing to women's improvement. How do they fit into USAID's overall WID strategy?

Answer. USAID's overall Women in Development (WID) strategy is to mainstream gender concerns into all of our programming to ensure the greatest impact on women. This means that the vast majority of funds directed to improving the status of women are programmed through USAID field Missions and central bureaus, not just through the Office of Women in Development.

From FY 95 to FY 98, for example, we spent over $740 million per year, on average, in improving women's status through programs in health, nutrition, family planning, economic growth, education, democracy and governance, and the environment. This reflects the extent to which a main consideration in USAID programming is whether and how programs will affect women, and in each region of the world we have seen positive impacts on the status of women. I'm please to note that we have documented this significant Progress in a recent report to the Congress.

Questions for the Record Submitted by Mr. Wolf

indonesian elections

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operation lifeline sudan

Question. As you know, many of us have been concerned for a number of years about the limitations imposed on Operation Lifeline Sudan by the Government of the Sudan. The GOS routinely and arbitrarily bans relief flights into Southern Sudan, thereby depriving some of the neediest people of critical life-saving aid. OLS has been able to overcome these obstacles somewhat, but it is not totally reliable. In the past, some of my colleagues and I have urged USAID to develop alternative mechanisms for delivering USAID to areas underserved by OLS and give greater priority to funding NGOs that operate outside the OLS framework. What progress has USAID made in this area?

Answer. USAID has adopted a strategy of increased support to organizations that operate outside OLS. In fact, support to non-OLS, non-governmental organizations NGOs for disaster assistance and food USAID has more than doubled between FY 1998 and to date this fiscal year. In recognition of the constraints faced by OLS last year during the flight ban imposed by the GOS, USAID is prioritizing the increased movement of relief assistance overland. USAID is supporting road rehabilitation activities so that more relief can be moved overland. In 1999, USAID is providing 36,000 metric tons of commodities to NGOs and the World Food Program that will be transported by road into Bahr el Ghazal.

sudan relief and rehabilitation agency

Question. Would it not be useful for USAID to consider providing USAID directly to the Southern Sudan Relief and Rehabilitation Agency, an indigenous, community-based mechanism for delivering assistance and strengthening local capacity?

Answer. USAID agrees that it is important and useful to involve community-based organizations in the delivery of relief assistance, and that there is value in strengthening the capacity of such local organizations. To this end, USAID supports several indigenous organizations that are directly implementing relief and rehabilitation activities. These include: SuprAid, Sudan Medical Care, Rainbow, and the Association of Napata volunteers. USAID continues to develop additional methods to fund local groups through its various NGO partners.

USAID does not believe that the role of the Sudan Relief and Rehabilitation Agency (SRRA), which is the humanitarian arm of the SPLM/A, is to directly manage the delivery of assistance. The SRRA's role is to coordinate assistance and act as a link between communities and international relief organizations, implement SPLM/A policies regarding humanitarian assistance, collect data to identify needs and target assistance, and monitor and evaluate projects. USAID has supported in the past, and continues to support, capacity-building

efforts designed to strengthen the SRRA in these key areas.

Questions for the Record Submitted by Mr. Knollenberg

american educational institutions in lebanon

Question. The American educational institutions in Lebanon are considered by most Lebanese and Lebanese Americans as one of the most important components of the American assistance program in that country. They have produced the national, political and economic leadership for Lebanon and other countries in the region. In the past these institutions are supported using both the American Schools and Hospitals Abroad program (ASHA) and a portion of the ESF provided to Lebanon, primarily to provide scholarships for less fortunate Lebanese to attend these schools. How much of the FY 99 assistance package for Lebanon do you foresee going toward these valuable institutions? How much of the FY 2000 funds do you plan to use?

Answer. USAID recognizes the important contributions that have been made by educational institutions in Lebanon. Since 1977, the ASHA program has provided a combined total of $191,262,000 to the American University of Beirut, the Lebanese American University and the International College of Beirut. ASHA grants are based on the results of an annual competitive process. The FY 1999 grant application review process has been completed and ASHA plans to make awards in the amount of $1,800,000 for the American University of Beirut (AUB); $200,000 for the Lebanese American University (LAU); and $300,000 for the International College of Beirut.

The ASHA competitive process for FY 2000 begins on June 30, 1999 with the submission of new grantapplications. Decisions regarding proposed awards cannot be made until the completion of that competitive review process.

USAID agrees that the universities are among our important partners in working toward Lebanon's recovery from the war and future development. ESF funds were used briefly in he early 1990s for scholarships only at the Lebanese American University. In 1994, and again in 1997, USAID and the universities agreed to a partnership under which ESF funds would be provided in response to the universities' grant proposals for activities and equipment that enabled the universities to contribute to Lebanon's development in such areas as environment and economic development. USAID believes that this partnership has been very successful. Under this understanding, the two American universities have priority consideration of proposals, without the competition required of other grantees, so long as those proposals fit within the 1997-2000 strategy that was jointly prepared by USAID and the Lebanon partners, including the universities.

USAID has granted almost $3.4 million of ESF to AUB since 1997, and almost $1 million to LAU. AUB currently manages three major activities that it designed and USAID funded. USAID is now exploring several new areas with the universities. AUB currently has a pipeline of over $1 million, and the LAU has advised USAID that the LAU economic reform program does not require funding until early in FY 2000. USAID's programming for FY 1999 and FY 2000, as in other years, is based upon the needs of activities and proposals that support the program's strategic objectives. No specific funds are earmarked for any recipient in advance.

Questions for the Record Submitted by Mr. Forbes

the future of u.s. foreign aid

Question. Mr. Atwood, in the long run do you foresee the ability of the United States to gradually reduce the amount of development assistance that it provides around the world? If so, to what do you attribute this? If not, will there be an increased need for U.S. aid or will it stay the same? How might this impact future USAID budget requests? Should the international development banks assume a greater role in the development process? Might this harm America's diplomatic influence around the world?

Answer. You have posed a number of interesting and challenging questions. In response. let me lay out the following key points.

U.S. aid for development has diminished steadily over the past forty years in both nominal and real terms. It has diminished sharply relative to the U.S. budget, to less than \1/2\ per cent. (By comparison, the Marshall Plan, aimed mainly at reconstruction, consumed almost 10% of 1949-52 federal expenditures. ODA in 1960-61 amounted to about 3.1% of federal outlays). It has declined relative to U.S. national income (now around 0.1%, compared with 0.55% in the early 1960's), and relative to aid provided by other countries. In the 1950's and early 1960's the U.S. provided around half of total Official Development Assistance. In 1996, the U.S. share of the total was 17%.

To some extent these declines are justified both by greatly increased aid efforts by other donors, and by ``graduation'' of advanced developing countries from reliance on developmental foreign aid. Indeed, of some twenty-five development graduates, nine have become donors of foreign aid. These are welcome trends, and speak to the success of the international aid effort under U.S. leadership. We expect the ranks of development aid graduates to continue to increase, and we expect a substantial number of other developing countries to continue making significant progress.

At the same time, the world is becoming increasingly interdependent at an accelerating pace. The U.S. has a clear stake and national interest in whether and how needy countries surmount problems such as transition from Communism, crisis prevention, and a host of global issues (environment, population, infectious diseases, peace, migration, narcotics) and other specific foreign policy concerns. Foreign assistance has played an important role in addressing these issues.They have created additional substantial demands on foreign aid beyond those of ``traditional'' third-world development.

Our declining ODA levels are causing us to lose our world leadership role among donors, even as we are still clearly the richest country and a generous people. For instance, this year the U.S. lost chairmanship of the DAC and UNDP.

Trends in U.S. foreign aid overall will depend on trends in these and other possible claims on foreign aid: and on continued U.S. willingness to play a lead role in the international community in responding to the sorts of problems mentioned above and protecting U.S. interests. Overall, requirements for U.S. foreign aid have clearly been increasing rather than subsiding. Diminishing resources for U.S. foreign aid is not supportive of U.S. global leadership.

The international development banks are very important and we support their essential role. However, they are not a substitute for bilateral assistance, both because they are less flexible (e.g. in working with private and civil society organizations in addition to governments, and in quick responses to crisis situations) and because they are not as directly linked to U.S. foreign policy interests as is the bilateral aid program.

fiscal oversight

Question. Mr. Atwood, there are many in Congress who wonder about USAID's ability to maintain adequate fiscal oversight over its many projects around the world. Can you comment on the status of fiscal management within USAID and offer a prognosis for future developments with respect to this topic? Is there some action that can be taken by Congress to ensure that more of our assistance dollars reach the intended recipients rather than Washington contractors? Does the rise of micro-enterprise projects bode well for the cause of financial oversight or could it cause more potential problems?

Answer. With regard to fiscal management, we are taking every precaution to ensure that all funds for which we are responsible are properly used and accounted for. We determined that our current accounting system does not comply fully with federal accounting standards and, for that reason, we are replacing the system with a new off-the shelf system. In addition, we have made provision for cross-servicing of financial record-keeping by other agencies where it is cost-effective to do so and for outsourcing to the private sector of certain other accounting functions. With these improvements, I believe we will be able to continue our prudent fiscal management and also achieve compliance with federal accounting standards.

Benefits purchased with assistance dollars are provided to intended recipients of assistance. The contractors and private voluntary organizations paid with these funds are held responsible for producing demonstrable improvements for their intended recipients in accordance with strategic plans that are carefully thought out with the participation of the recipients.

USAID-supported micro-enterprise projects have provided the first private sector opportunities for many thousands of individuals in all geographic regions. In FY 97, such programs had 1.4 million active borrowers and 2.1 million savers through hundreds of institutions. Such programs will become too great a management burden if cuts in technical staff continue. Decisions to increase these programs should therefore be left to individual Missions.

Questions for the Record Submitted by Mr. Kingston

expanded threat reduction initiative

Question. I would like to hear more abut the $241 million request for the Expanded Threat Reduction Assistance Initiative. If I understand them correctly, I am supportive of the goals of this initiative, but please clarify how USAID's portion of this general effort, which is now split among at least three cabinet departments is coordinated with Department of Defense and Department of Energy initiatives. Is there some kind of central administrative clearinghouse for all this? I hope we are able to avoid wasteful duplication of basic administrative functions that could result from splitting this responsibility among so many government entities.

Answer. The State Department Office of the Coordinator for U.S. Assistance to the New Independent States (S/NISC) acts as a ``clearinghouse'' for the multi-agency Expanded Threat Reduction (ETR) activities. S/NISC develops the final assistance budget for the region in coordination with the various USG entities. During the budget development process, S/NISC makes every effort to ensure that there is coordination, not duplication. USAID does not directly administer ETR funds. Where USAID activities can further the goals of ETR, these activities are coordinated with and complement other agencies' ETR

efforts.

The multi-agency ETR Initiative encompasses a number of U.S. assistance programs proposed for the Departments of State, Energy, and Defense. There is no duplication of functions, but a carefully targeted, coordinated, and complementary set of programs, run by different agencies, which are in U.S. national security interests.

The economic crisis that affected Russia and the NIS region over the past year increased the risks of proliferation of weapons of mass destruction and weapons expertise.

Building on existing programs sponsored and funded by the Departments of State, Defense, and Energy, the Administration is seeking $4.5 billion over the next five years for high priority security, arms control, and nonproliferation assistance funds to help Russia and the other NIS countries address the security implications of the economic crisis. We will also encourage other nations to provide complementary assistance.

Each agency has separately included elements of the ETRI in its respective budget requests and would continue to implement programs separately, but in coordination with other related activities. In FY 2000, the Department of State is requesting to administer $250 million in ETR funds. Of this amount, $241 million are from the FREEDOM Support Act account and $9.5 million are from the Nonproliferation, Antiterrorism, Demining, and Related Activities (NADR) account. The remainder of the FY 2000 FREEDOM Support Act account, at a request level of $782 million, will fund continuing programs of USAID and other agencies in support of the economic and democratic transitions in the NIS through exchanges, partnership, regional activities, support for non-governmental organizations, and small business development.

The FY 2000 request of $241 million is for programs that address the security implications of the economic crisis that spread to the region last year. This includes funding for export control programs (also supported in the NADR account), the Science Centers, Civilian Research and Development Foundation and other science collaboration and military relocation related assistance. Although the State Department-administered security efforts have been increased from $51 million in FY 1999 to $241 in FY 2000, this has not been at the expense of the economic and technical assistance programs, which will be funded at $791 million, about the same level as last year.

While resources are always limited, we need to provide increased economic, technical, and security related assistance to Russia at this critical time and to provide substantial assistance to the other countries in the NIS. These programs are complementary and their prospects for success are interrelated.

asian financial crisis

Question. You have requested $26.5 million in development assistance to mitigate the Asian financial crisis. How will DA be targeted and spent to alleviate the financial crisis? What will this money be spent on?

Answer. USAID will use the funds to address four key constraints in Indonesia and the Philippines: help restart business and bank activities; strengthen both financial and capital markets governance; strengthen the governance of selected public sector operations; and finally, bridge a few critical gaps in funding to improve the targeting, coverage and availability of social programs to vulnerable populations. For example, in restarting bank and business activity, USAID will provide technical assistance and training to: help corporations restructure debt and work out problem loans; and

facilitate debtor/creditor agreements.

To improve financial and capital markets governance, USAID will provide technical assistance and training to: improve accounting practices and encourage the adoption of internationally accepted accounting standards; strengthen Central Bank supervision of member banks; improve bankers' skills in risk assessment and credit analysis; strengthen disclosure requirements enforcement by the stock exchange.

To improve the governance of selected public sector operations, USAID will provide technical assistance and training to: develop more transparent and accountable public sector procurement practices; establish a national counter-corruption reform agenda; support the development of coalitions of business, media, and watchdog groups that analyze, identify, advocate for, and monitor, legislative and policy reforms.

Finally, to improve the targeting, coverage and availability of social programs to vulnerable populations, USAID will fund activities to: expand micronutrient supplementation programs for children; expand multivitamin programs to reduce maternal micronutrient deficiencies; expand training programs for health care workers, and provide technical assistance to strength epidemic or nutritional surveillance systems and improved targeting of social safety net programs.

africa food security initiative

Question. $45 million of the $512.6 million requested for African development is for the Food Security Initiative that President Clinton promised in his visit to Africa last year. I presume this is geared toward agricultural technical assistance, because a food USAID request would have gone through Agriculture. Can you elaborate a little on this particular portion? Is USAID attempting to develop bilateral private partnerships (that will have the side future benefit of providing a market for US agriculture inputs) as part of this initiative as it does in other regions?

Answer. The Africa Food Security Initiative (AFSI) is part of a broad collaboration among African governments, the United States, and other donors to promote agriculture as a means to improve childhood nutrition, generate incomes for rural families, and combat hunger. The Initiative supports expanding existing USAID bilateral and regional programs, building on recent successes in forming public-private partnerships and creating positive policy environments. Three approaches are taken: increasing agriculture production, improving food market, efficiency and access, and increasing agriculture trade and investment.

AFSI, implemented at a pilot level of $30 million in 1998 and $31 million in 1999, is already producing results. A successful farmer demonstration activity in Uganda, one of five AFSI countries (Ethiopia, Malawi, Mali, Mozambique, and Uganda), was expanded in 1998 from 8 to 16 districts. This program tripled the sales of improved maize and bean seed varieties over 1997 levels to these farmers, and will result in increased food security for many farm households.

Through AFSI and other initiatives, USAID is promoting close partnerships with U.S. agribusinesses that work to the mutual benefit of the U.S. businesses and Africa's farmers as solutions to constraints to improved food and agriculture productivity are found. The cost of not acting in Africa is high as food USAID costs could soar to $900 million annually by 2005 if current trends are not changed. On the other hand, there is good reason to believe that investments today are a win-win situation for both Africa and the U.S. economy. USAID is committed to achieving the objectives of AFSI, in a manner which is

consistent with Congressional support and intent as recently passed in the Africa Seeds of Hope Act, Public Law 105-385.

assistance to the new independent states

Question. USAID has been in the process of shifting the weight of assistance from central governments to NGO's and the private sector for several years now. Please provide a chart for the subcommittee which shows the transition of proportions of aid going to each of these sectors over the years since Freedom Support was enacted.

Answer. USAID has not tracked funding provided for assistance to central governments compared to local governments or to non-governmental programs and we are therefore unfortunately not able to provide an exact historical chart that meets the Committee's request. However, we can give examples where precise data is available, namely for Russia and Ukraine.

[GRAPHIC(S) NOT AVAILABLE IN TIFF FORMAT]

In these two countries, we have moved away from activities with the central government as initial policy and institution-building efforts have ended or, in some sectors, as less-hospitable environments for reform have developed. In Russia, assistance to the central government has declined from 18 percent to 5 percent between 1997 and 1999, reflecting completing of some reform programs such as privatization, and declining opportunity to have significant policy impact in other areas, such as agriculture. In Ukraine, we have similarly made a conscious, though less dramatic, shift away from support to the central government, as the opportunities for centrally led reforms are not as evident in all sectors as in the past.

Across the NIS, we are increasingly mindful of the need to work with grassroots organizations to broaden support for reform and ensure that the benefits of our programs impact people directly. Consequently, there is a greater emphasis on non-governmental work across the region. In Armenia and Georgia, we have recently moved from predominantly humanitarian assistance programs (primarily implemented through the governments) to technical assistance programs which necessarily also involves work with the governments in fundamental legal and institutional reform, such as energy sector reform. In Central Asia, there also continues to be a need to work with central governments to implement basic reform measures in energy, environmental reform, and privatization. Nevertheless, USAID is also consciously balancing its legal, policy, and institutional reform work with support to grassroots organizations in the Caucasus and Central Asia, as we are mindful of the need to support systemic reform from the bottom up.

strengthening civil society in ecuador

Question. Will you please update your answer to my question last year dealing with USAID's Strengthening Civil Society Strategic Objective in Ecuador (SO-3). At this time last year you informed me that a USAID-funded local NGO had successfully engineered passage of a new ``amparo'' law which gives prisoners a legal remedy when their constitutional rights are violated. I am very interested in knowing how effectively this law has been implemented over the last year, particularly in light of Ecuador's newly-ratified constitution.

What exactly is the new legal remedy? Does it really just amount to an appeal process which is just as backed up in their judicial system as are the original judgments (prisoners are waiting on average 2-7 years for trails)?

Answer. The ``amparo'' is a recourse to a judge to protect a

constitutionally or legally guaranteed right which either has been or is in danger of being violated. Any citizen can request this protection, not just prisoners. It differs from the appeal process which is a request to correct some defect in a judicial proceeding. The ``amparo'' (protection) can be requested before any judicial proceeding or indeed any activity at all which may affect constitutional rights is initiated.

The amparo recourse was first introduced in the Constitution of 1996. It was not used because the Constitution did not specify which type of judge could receive and act on the request, nor was there any norm regulating the application of this recourse.

The new Constitution of August 1998 rectified this situation by clarifying that any judge at all could receive the request for amparo. Also, the new constitution makes plain that no additional law or regulation is necessary for a request to be made and for a judge to act on the request. The constitutional article is applicable immediately, in and of itself, without the need of any additional norm.

As a result of these clarifications, the recourse to amparo is being widely used in a variety of contexts by actors of all social strata. Indigenous groups have brought amparo against certain activities of oil companies thought to be harmful to the environment; middle class consumers have used amparo against cellular telephone companies who were rounding off time expenses; and private companies and banks have used amparo against the government concerning the freezing of bank accounts. Judges dislike the measure because it is adding to their work load (probably a sign of its success).

Question. Also, what is the status if the proposed new law developed with USAID assistance you mentioned last year to give accused prisoners an opportunity to cross examine their accusers? I can tell you from experience of one of my constituents that if this is indeed law now, it is not being implemented.

Answer. This question refers to the new Criminal Procedures Code being presently debated in Congress. The new Code is expected to be passed by August of this year. USAID is providing assistnace to the drafters of the Code through an NGO (Corporacion Latinoamericana de Desarrollo--CLD) to work with the Congressional Committee and other members of Congress to complete the second and final debate on the floor.

Question. If it has not been enacted, what technical assistance is USAID providing now to get at this problem and what are the chances of enactment?

Answer. Not applicable as it is expected to be passed. See above.

tuberculosis

Question. Over the last two years, USAID has received approximately $12 million for TB through the Infectious Disease Initiative of the Child Survival account. What is your request for TB for FY 2000

What percentage of the $12 million is actually getting to patients?

Answer. In FY 2000, USAID's request for infectious diseases within the Child Survival and Disease Program Fund totals $50 million. We expect that roughly $12 million of that will be devoted to tuberculosis. The balance of the $50 million for infectious diseases supports our efforts to reduce malaria and the spread of antimicrobial resistance, and to strengthen capacity for surveillance and response. All of USAID's funds directly or indirectly benefit patients. Funds allocated to specific countries (e.g., India, Russia, Kazakhstan) directly benefit TB patients through the establishment and implementation of prevention and control efforts, specifically DOTS

(Directly Observed Treatment, Short-course) programs. These programs, endorsed by international health experts and agencies, encompass a strategy of enhanced clinical and laboratory diagnostic and treatment practices, improved notification services, effective case management, health education, and monitoring and analysis of data, and result in improved cure rates. Other programs funded by USAID include evaluation of alternative treatment regimens, training of laboratory and clinical providers through the development of standardized guidelines, teaching materials, and courses, and support for the development of new diagnostic techniques appropriate for use in developing countries. Surveillance activities funded by USAID also benefit patients by indicating areas of highest disease prevalence and pockets of multi-drug resistant disease, so that diagnostic and treatment activities can be tailored to local needs of communities and patients.

biotechnology assistance

Question. It appears that there is a growing perception internationally that biotechnology and commercial products making use of biotechnology are solely benefiting the United States and are not beneficial to the developing world. Technological developments coming out of biotechnology research could provide more bountiful, environmentally sensitive food production in the 21st Century in the developing as well as the developed world. I assume USAID supports reaching out to the developing world through partnerships with U.S. universities and companies to bring the benefits of biotechnology to developing countries? Is that correct?

Answer. Yes, that is correct. USAID has been supporting these kinds of partnerships, with total funding amounting to roughly $10 million over the past few years. In September 1991, USAID awarded a cooperative agreement to the Institute of International Agriculture at Michigan State University as the lead in a consortium of institutions to implement a new phase in its support of agricultural biotechnology. The Agricultural Biotechnology Support Project (ABSP) has taken an integrated approach, combining applied research, product development, and policy development--primarily biosafety and intellectual property rights (IPR)--to help developing countries use and manage biotechnology. This program was recently renewed through September 2001.

ABSP operates on the premise that, if developing countries are provided the tools, biotechnology offers new opportunity to realize the benefits from their diverse genetic resources. Those genetic resources serve as bargaining power in bringing in private sector investment and technology transfer.

This is illustrated by the experience of the ABSP Project in Egypt where Pioneer Hi-Bred has a collaborative agreement with an Egyptian institution, exchanging training and technology transfer for the opportunity to license potentially important pest control genes from Egypt. Along similar lines, the INBIO-Merck Pharmaceutical agreement in Costa Rica and the International Consortium of Biodiversity Groups, a joint program of the NIH and NSF, have a struck deals between developing countries and the pharmaceutical industry to exchange technology transfer and biodiversity conservation funds for access to potentially profitable genetic resources.

The ABSP project has research and product development collaborations with Costa Rica, Egypt, Morocco, Indonesia and Kenya focusing on the application of plant biotechnology to production constraints in food crops such as banana, maize, pineapple, potato, sweet potato, and tomato. Private sector partnerships are with DNA

Plant Technology, Garst Seed Co., Pioneer Hi-Bred, Asgrow Seed Co., Monsanto Co., and the Biotechnology Industry Organization in the U.S., with Fitotek Unggul in Indonesia and with Agribiotecnologia de Costa Rica in Costa Rica. Collaboration and the flow of information is not unidirectional or confined to one sector.

In addition to applied research and development, the ASBP project allocated significant resources to addressing policy issues which affect the adoption of biotechnology, particularly in the areas of biosafety and intellectual property.

biotechnology assistance (working with u.s., based research competition)

Question. Non-profit groups like the Consortium for Plant Biotechnology Research (CPBR) have had great success in bringing together university scientists, companies, and governmental agencies here in the U.S. to produce high quality, peer-reviewed, commercially-relevant biotechnology research. CPBR has also been successful in achieving substantial private matching funds from companies for its U.S.-based research competitions. What is the Agency's view on the concept of working with the CPBR to undertake an international biotechnology research competition that would bring together academic, biotechnology companies from the U.S. and around the world, and governmental agencies from the U.S. and developing countries to work on pressing agricultural and related issues through biotechnology.

Answer. USAID is supportive of competitive research and bringing the technical and financial resources of the U.S. private sector to bear in partnership with U.S. and developing country research institutions. USAID currently funds work in biotechnology research and development activities that engage U.S. universities, government agencies, and biotechnology companies in a research and policy development agenda. While USAID in principle welcomes the opportunity to expand partnerships and leverage the resources and expertise of such groups as the Consortium for Plant Biotechnology Research (CPBR), we would need to explore in more concrete detail with the group where there specific interests and expertise might be most usefully employed.

Questions for the Record Submitted by Ms. Pelosi

hiv/aids

Question. Last year the number of HIV/AIDS cases around the world increased by over 15%. The Administration's FY 2000 $127 million request for addressing this global crisis represents less than a 2% increase from last year's levels and does not include a continuation of the $10 million included in the emergency supplemental to address children and HIV/AIDS. Given the devastating impact of AIDS on the economies of Africa, why is the Administration not proposing to do more?

Answer. USAID continues to be the major donor for the international response to the global AIDS pandemic. In fact, USG contributes nearly four times as much to HIV/AIDS in the developing world as the next bilateral donor (Netherlands). The USG cannot, should not, bear the entire burden for the response to the global pandemic. Currently, there are a number of initiatives underway to bring together other bilateral and multilateral donors, the World Bank, the private sector, foundations and most important, host country governments to increase the available resources. In fact, on April 23 there was a meeting of all of the major HIV/AIDS bilateral donors to address this critical issue of resources.

It is also important to note that there is a myriad of demands on the limited development assistance budget. We must continue to assess these many competing issues to ensure that we have balanced programs in individual countries.

cross border tuberculosis

Question. We understand that a USAID assessment team is conducting a study of Tuberculosis in Mexico this week at the request of this Committee. Based on preliminary information, do you see ways that domestic health agencies could contribute more directly to protecting American health from risks posed by cross border TB?

Answer. Preliminary findings of the USAID assessment of Mexico's TB program indicate a number of areas in which domestic governmental and non-governmental agencies might collaborate on tuberculosis control activities which would help protect the American public. The primary focus of the newly developed strategy is to enhance tuberculosis prevention and control activities in Mexico to mitigate the disease within the country and thereby decrease the potential for cross border transmission. Agencies that have been identified which could contribute to this effort include the Centers for Disease Control and Prevention (CDC), The Gorgas Institute, Ten Against TB, Migrant Clinicians Network, and non-governmental organizations (NGOs) such as Project HOPE and Project Concern International.

CDC currently supports border TB projects on the U.S. side through cooperative agreement funds awarded to Texas and California. These projects greatly assist efforts to implement effective diagnostic and treatment policies in these areas and also facilitate the transfer of patient data between countries to help ensure complete and timely follow up.

Plans are already underway for the Gorgas Memorial Institute, with USAID support, to help strengthen Mexico's national TB control program performance through operational research on Directly Observed Treatment, Short-course (DOTS) and the prevention of drug resistance. This will include establishment of a center of excellence for operational research and training.

Several NGOs (including Project HOPE and Project Concern International) are currently engaged in border projects, to assist TB prevention and control efforts by augmenting and expanding DOTS activities in Mexico.

Ten Against TB is an organization comprised of TB representatives from each of the four American and six Mexican states on the border. This organization has the potential to play a key role in facilitating and coordinating activities, fostering communication, and identifying areas for future collaboration.

health systems

Question. In your testimony, earlier this month before the House International Relations Committee, you spoke of USAID's inability to accept vaccine DONATIONS from the U.S. private sector for developing countries because of the need for a strong health infrastructure in these countries to be able to deliver the treatments. (I believe you cited tuberculosis as an example.) Please explain how proposed cuts in the FY 2000 budget to the ``other health'' line item reconciles with the need to strengthen the health infrastructure of our donor countries? What all is included in this budget line?

Answer. Under the budget category for ``Other Health,'' (now called Health Promotion) funds are directed to the Agency's sustainability objective of assuring the long-term availability, efficiency, quality, and accessibility of health and nutrition programs and for some aspects

of maternal health. Under the FY 2000 budget, ``Health Promotion'' was reduced from $36 million to $32 million to deal with the greater pressure and need for HIV/AIDS funding ($2 million) and Basic Education funding ($2 million).

With limited overall resources, these allocations were made to cover high priority and urgent needs in the field. While having less money available in the Health Promotion category does reduce USAID's ability to support the health system strengthening activities which are so critical to sustaining programs like tuberculosis control, USAID is trying to balance competing needs within the overall Child Health Survival (CHS) account.

brazil environmental funding

Question. A recent article in the Washington Post detailed the problems Brazil is having maintaining spending from its own budget for environmental mitigation given the financial crisis there. You will soon be faced directly with the challenge of helping Brazil meet many challenges. My question is what can the US do to help in the environmental mitigation programs.

Answer. While it is true that the Government of Brazil (GOB) must make tough choices as it attempts to undertake budgetary belt tightening, in recent conversations with USAID, the Minister of Environment stated that the GOB counterpart support to the large international environmental program (PPG-7) will continue to be available. In anticipation of possible GOB budgetary constraints, USAID's commitment to the PPG-7 program (approximately $2.0 million annually, up to a total of $10.0 million), as well as its other environmental activities in Brazil, support U.S. and local NGO implementation of environmental programs, thereby reducing the direct effects of possible fluctuations in public sector funding to this sector. Also, through USAID encouragement, the Minister of Environment will be recommending to the Minister of Finance that the GOB request debt relief from the US Treasury under the FY1999 Tropical Forest Conservation Act (TFCA). This will assist in achieving common objectives on decreasing deforestation and reducing green house gases, with the added benefit of generating local currency to finance GOB's commitments to environmental actions.

child labor initiative

Question. USAID is requesting $10 million as part of a three-year program to support several pilot projects in addressing the problem of child labor throughout the world. Can you detail the plans for this initiative and tell us where these pilot projects will take place.

Answer. The proposed initiative named ``School Works!'' will provide an additional $10 million for a focused and coordinated effort to combat abusive child labor. USAID intends to maximize the impact of this effort by working with the Department of Labor (DOL) and the International Labor Organization's (ILO's) International Program for the Elimination of Child Labor (IPEC), as well as other donors such as UNESCO and the United Nations Children's Fund (UNICEF).

School Works! is the first time that the U.S. Government has made the reduction of child labor through improved access to basic education a specific focus of U.S. development assistance. USAID already invests $100 million yearly in basic education activities that target underserved and poor children in the developing world--those most at risk of becoming involved in abusive and exploitative working situations.

The initiative will complement current work of the DOL and IPEC. The USAID program will build on their work by focusing on enrolling and

retaining high-risk children in effective basic education programs.

``School Works'' will work with IPEC to identify target locations, and to design and implement basic education demonstration projects appropriate to targeted situations. Programs might include incentives and basic education services to convince parents to enroll and keep children in school, and support for activities to implement policies for the welfare and protection of children. This program will also help to create a toolkit of effective educational innovations that reduce abusive child labor, and to widely share information and results among nations and agencies.

climate change

Question. There has been and continues to be a considerable amount of misinformation about the President's Climate Change Initiative and its relationship (or lack thereof) to the Kyoto Protocol. Explain how the $290 million USAID will spend on environmental programs will help nations achieve economic growth while reducing greenhouse gases and cleaning up urban pollution.

Answer. Of the $290 million of development assistance (DA) funds USAID will spend on environment programs in FY 2000, $112 million is attributed to activities that address climate change issues. An additional $38 million is anticipated from Economic Support Funds (ESF), and Support for East European Democracy (SEED) funds for climate-related activities. The total target for activities that address climate change is $150 million for FY 2000, as promised in President Clinton's commitment to developing countries through USAID's Climate Change Initiative.

USAID has been working to combat the threat of climate change since 1990. The Agency's strategy has targeted interventions in the agriculture, biodiversity, energy, forestry, and urban sectors, to decrease net emissions of greenhouse gases while meeting USAID's sustainable development objective. In addition, natural resource efforts, economic growth programs, and activities in the health sector have been implemented in developing countries to reduce vulnerability and increase the capacity to adapt to climate-induced change.

USAID's climate change strategy, drafted in 1994 in response to Congressional request, and revised in 1997 to target twelve key countries and regions, implements a ``win-win'' approach to climate-related intervention. The Agency's climate change activities are those that provide climate change benefits in addition to their primary objectives of increased energy efficiency, cleaner energy production, more effective natural resource management and reduced urban pollution. By working through existing land-use, energy and urban activities, USAID leverages existing resources to address climate change and assures a greater level of sustainability by addressing climate change in conjunction with economic development and sector-specific goals. There has been no reduction of other programs in order to fund climate change activities.

climate change (kyoto)

Question. Explain how USAID's programs in this area support the goals of KYOTO, but have no direct relationship to the Protocol.

Answer. The Kyoto Protocol to the United Nations Framework Convention on Climate Change (UNFCCC) proposed specific binding commitments to reduce greenhouse gas (GHG) emissions by developed countries as well as several market-based mechanisms to reduce GHG emissions and respond to the threat of climate change. The market-based mechanisms include emissions trading and joint implementation of emissions-reducing activities (JI) between countries that have agreed

to emissions reduction commitments (Annex 1 countries), and engagement on emissions-reduction activities between Annex 1 countries and developing countries through a Clean Development Mechanism (CDM). It is not possible to implement the Kyoto protocol at this time because it has not been ratified and none of the mechanisms are operational. The CDM may be approved for implementation as early as 2000, but the first compliance period for meeting targets agreed to in Kyoto doesn't begin until 2008.

USAID's climate change strategy was formulated before Kyoto and has not changed substantially since. The Agency remains committed to ``no regrets'' activities that provide climate benefits through energy, natural resource and urban activities that promote sustainable development. As part of that strategy, we are continuing to provide technical assistance and training to developing countries seeking to understand the scientific, environmental, and economic consequences of participation in the UNFCCC, which the U.S. has signed and ratified.

climate change (international resource program)

Question. Explain the International Resource program between U.S. cities and cities in developing and transitional countries.

Answer. USAID's Resource Cities Partnership program, implemented in conjunction with the International City/County Management Association (ICMA), facilitates technical partnerships between U.S. cities and cities in developing and transitional countries to support improved urban management. Resource Cities facilitates the exchange of teams of local government officials--city managers, mayors, and department heads--who contribute their time pro bono between U.S. and overseas cities over a period of 18-24 months. The technical focus of each partnership is driven by the demands and needs of the target overseas cities, and in the past has addressed areas such as solid waste management, organizational development, revenue generation, budgeting, historic preservation, downtown revitalization, and water and wastewater treatment.

Since the commencement of the program in May 1997, 31 partnerships have been formed to deliver ongoing technical assistance in a wide range of sectors. The program is expected to double in the next two years.

The next round of Resource Cities partnerships, which will commence in July 1999, is expected to include partnerships that provide targeted assistance to support cities' efforts to achieve global climate change (GCC) objectives. Activities are likely to focus on ways in which cities can reduce urban pollution, improve air quality, and reduce greenhouse gas emissions.

Past partnerships have led to significant changes in urban management overseas, such as the implementation of a new financial system in cities in Swaziland, the development of a walking tour for economic development in an historic port town in India, and the implementation of a long-term plan for integrated solid waste management in a city in Guatemala.

office of transition initiatives funding

Question. $55 million has been requested for the Office of Transition Initiatives, which is funded within the Disaster Assistance account. OTI focuses on special case recovery from disasters from political conflicts, and has been instrumental in transition programs in Guatemala, Bosnia and Rwanda.

Explain why these funds are requested in the Disaster Assistance Account (which has the broad authorities necessary) for what could be termed non-traditional disaster assistance.

Answer. The proposed FY 2000 funding level for OTI is the same as the actual program appropriated by Congress in FY 1999. However, the FY 1999 level was divided between International Disaster Assistance ($40 million) and Development Assistance ($15 million). The same $55 million total is proposed for funding for FY 2000, entirely from the Disaster Assistance account. The Administration believes Disaster Assistance is the appropriate account for funding OTI actitives.

During this decade, there has been a seeming by steady growth in the number and humanitarian impact of man-made disasters. Some of the man-made disasters have been sparked by a natural disaster such as a drought or flood, but in all cases some form of political or ethnic crisis has intensified the humanitarian impact of the disaster. Providing effective relief and assistance which can help ensure a successful transition to sustained recovery in these complex disasters often requires interventions different from traditional disaster relief. For example demobilization of soldiers; demining of critical areas; assuring effective community participation in small-scale reconstruction projects; assistance to independent media and to civil society organizations to support peaceful, democratic transitions; and training of local officials and leaders in ethnic reconcilitation are all interventions which can be critical to successful disaster relief. Even in natural disasters such as Hurricane Mitch, there can be concerns, such as the potential for corruption, which can have a critical impact on the effectiveness of U.S. disaster response.

There are many explanations for why there are now so many complex disasters. Some believe the end of the Cold War removed the discipline of super-power competition, freeing the eruption of ethnic and civil conflict. Some believe the competition for resources in a world of rapid population growth is the cause. Whatever the explanation, there does seem to be a growing number of these complex disasters. The Office of Transition Initiatives (OTI) was established to develop expertise in response to such disasters. OTI has been successful in many interventions, from Rwanda to Indonesia to Bosnia to Guatemala. As a result, the prospects of successful recovery in these complex disasters have improved greatly.

The Administration believes the apparent need to deal effectively with complex disasters and the success of OTI's activities justify continuing activities at the $55 million level. At the same time, it is important to note that priority in use of funds from the International Disaster Assistance (IDA) account will continue to go to life-saving disaster response. It is also important to note that this proposal does not reduce funding available for the Office of Foreign Disaster Assistance, which administers more traditional disaster relief programs.

transition from oti to regular usaid programs

Question. Explain how programs in places such as Rwanda and Bosnia transition from OTI funded programs to regular USAID programs?

Answer. In most countries, OTI usually defines an exit strategy at the start of its programs, but that strategy can evolve as the situation changes. When appropriate, OTI aggressively pursues hands-off plans, whereby critical elements of a program are picked up by other parts of the U.S. Government or are supported by other donors.

OTI has learned that by focusing on coordination and partnerships with other donors and within USAID at the initial stages of a pilot program, the transition to regular USAID development programs is facilitated. Coordination has included occasions where OTI includes other partners on initial assessments of transition opportunities in

countries; integrated strategic planning; co-funding of projects; sequencing of funding; and agreements to pick up the funding of successful and possibly sustainable transition activities.

Examples of such coordination and partnership include the following: In Rwanda, OTI's pilot efforts with women's associations proved to be so successful that the USAID Mission co-funded some activities. As these activities continued to demonstrate significant impact in the lives of women and their families, the Mission has agreed to continue funding aspects of this project after OTI's funding ends. Also in Rwanda, the World Bank, United Nations Development Program and the USAID Mission will all support various elements of the local governance activity initiated by OTI.

In Bosnia, OTI supports civil society organizations in their efforts to promote democratic change. Examples of such activities have included: organizing public forums, debates and peaceful demonstrations; and publishing and distributing pamphlets and other written materials. OTI has awarded grants to over 150 civil society groups within the former Yugoslavia. Some of OTI's civil society activities will be continued through the USAID Mission's democracy and governance portfolio.

In Angola, USAID's Africa Bureau has agreed to pick up the OTI-funded Voice of America (VOA) program. Because media can play a critical role in helping a culture of peace take root, OTI supported VOA radio programming. This has provided Angolans with objective news and programs focused on conflict resolution, local governance issues, and human rights information. A recent survey showed a listenorship of 59%--making this one of the most listened to VOA programs in the world.

And in Indonesia, OTI's media strategy has been adopted by the USAID Mission as part of the sustainable development programming. Thus, OTI has been able to provide initial critical support to local media outlets, in order to multiply the impact of reform messages and advance national debate on the transition process.

operating expenses

Question. USAID's budget request for Operating Expenses of $507 million is a slight increase of FY 1999, but does not begin to address the increasing costs it faces. The increased costs combined with static budgets have brought about the need for staff reductions. These will come on top of the 35% staff reductions that have occurred since 1992. Mr. Atwood can you discuss the staff and cost cutting measures you are contemplating and give us some idea of their effect.

Answer. USAID can afford further staff reductions only where there is a reduction in the Agency's management burden, such as will occur from the closing of the bilateral program in Hungary this year and the programs in Lithuania, Poland, and Slovakia next year. We are also looking for ways to further increase management efficiencies in Washington and will examine the possibility of centralizing some program and administrative support functions into regional hubs. With these efforts, we believe a reduction in U.S. direct hire staff of about 70 should be possible without serious impacts on program delivery and oversight. We cannot, however, absorb additional unanticipated management demands without additional OE resources.

usaid security costs

Question. Comment on your security costs and how this request addresses your needs. My impression is that State has not been cooperative or sensitive to your needs having received a huge supplemental last year to address security problems.

Answer. It is true that USAID currently does not have the funding

resources available to support all of the security needs envisioned worldwide, including USAID's full participation in the Nairobi and Dar es Salaam projects. New office building construction for USAID will be several hundred million dollars over the next five years. USAID is working with FBO and the State Department's Assistant Secretary for Administration's Office regarding inclusion of USAID in the 3 billion dollar (over 5 years) supplemental under discussion at the present time. It is USAID'S hope that this, or any future allocation of supplemental funds through FBO, will specifically identify USAID's requirements.

Questions for the Record Submitted by Mr. Obey

dairy development programs

Question. Please advise the committee on the status of the dairy development programs included in last year's Foreign Operations appropriations. Last year, this committee provided a directive for $8 million in funding for dairy development in FY 1999. How has USAID implemented the directive, and what results are anticipated from the projects funded under this program?

Answer. Funds for dairy development activities are awarded on a competitive basis following a review of proposals by an intra-agency committee including technical livestock and agribusiness specialists. Some of the criteria on which the committee evaluates the proposals include expected impact, integration with the Mission's strategic and policy objectives, experience of the proposer in dairy development overseas, the extent to which the activity meets the purpose of the directive, and the ability to leverage other funding.

The process to allocate FY 1999 funds for the dairy directive has been initiated, but we are not yet at the point of reviewing proposals. In general, however, the activities are expected to meet the purpose of the directive while contributing to the Agency's agricultural strategy.

cross border programs in europe and the nis

Question. Congress also directed USAID to focus more of its training and technical assistance resources in the NIS and Eastern European countries on cross border programs in order to share successful development efforts. Would you please enumerate what cross border activities USAID is carrying out?

Answer. USAID is placing increased emphasis on partnerships and ``East-East'' linkages to promote the continued economic and democratic transformation of the region. USAID's assistance vision for 2000 and beyond views sustainable linkages--between the countries of Europe and the New Independent States (ENI) and the United States as well as between individual countries in the region--as a cost-effective means of sharing talents, responsibilities, costs, risks, and rewards in the reform of ENI societies.

Our long-term efforts target the institutionalization of formal structures and processes to exchange knowledge and experience and to deliver assistance. A country-to-country example of this kind of mechanism is the Polish-American-Ukrainian Cooperation Initiative (PAUCI). This program was put into place to strengthen the emerging cooperative relationship between Ukraine and Poland and enable Ukraine to take advantage of lessons learned in Poland.

An example of sector-based programs is the newly launched Local Government Information Network (LOGIN), which is a regional network that promotes the effectiveness of local governments through education and the exchange of information and experiences about successful and

replicable local government practices.

Short-term cross-border programs include consultancies, study tours, workshops, seminars, or conferences, such as the recent USAID-sponsored regional Small and Medium Enterprise and local economic development ``summits'' held, respectively, in Sofia and Bucharest. These kinds of short-term activities create relationships between participants and lead to the increased flow of information and ideas between countries that persist long after the USAID-sponsored activity has ended. Under separate cover, USAID is submitting a detailed report on cross-border linkages in Europe and the NIS to Congress in response to House Report 105-719.

utilization of partnerships in graduating countries

Question. This year, the U.S. plans to graduate three countries from its foreign assistance program. In preparation for this, the Committee directed the Office of Private and Voluntary Cooperation to help USAID missions in the preparation of exit strategies for graduating countries to fully utilize the partnerships developed by its programs to assure sustainable and lasting impacts. Please advise us on how this effort is proceeding.

Answer. The Office of Private and Voluntary Cooperation has been working on the issue of exit strategies through the Non-Presence Countries Subcommittee of the Advisory Committee on Voluntary Foreign USAID (ACVFA). this ACVFA Subcommittee has worked with PVC, USAID's regional bureaus, and the Bureau for Policy and Program Coordination to develop a set of recommendations pertaining to country graduation and exit strategies. The recommendations are based on subcommittee members' practical experience, extensive discussions with USAID staff, and a review of a recent study by the Center for Development Information and Evaluation that documents the lessons learned from the Agency's previous experience with country graduation.

USAID is committed to ensuring that the Agency's policy framework for country graduation include the ACVFA Subcommittee's recommendations, which are, in brief:

Graduation planning should be rooted in a positive approach to protecting and extending the legacy of prior development relationships and initiatives.

USAID's partners should participate in planning for and carrying out programs, whether USAID-supported or not, that will maintain USAID's legacy after graduation.

Whenever possible, adequate lead-time (two to three years) should be allowed to plan for USAID's departure.

The Agency plans to work with the ACVFA on a test-case graduating country to develop an exit strategy model that will guide USAID Missions in using the partnerships they have already built to ensure lasting impacts of their programs.

Wednesday, February 24, 1999.

FY 1999 EMERGENCY SUPPLEMENTAL REQUEST FOR CENTRAL AMERICA

WITNESSES

J. BRIAN ATWOOD, ADMINISTRATOR, AGENCY FOR INTERNATIONAL DEVELOPMENT
PETER F. ROMERO, ACTING ASSISTANT SECRETARY OF STATE FOR INTER-AMERICAN AFFAIRS

Chairman Callahan's Opening Statement

Mr. Callahan. Good morning. Generally we always start on time, but we are five minutes late this morning, so we will just try to make it up somehow or another.

We have to abandon this room by noon today in order for the Armed Services to hold a hearing, and therefore, we are going to be somewhat limited with time. So we want to go ahead and get started.

Today we are holding a hearing on the President's supplemental budget request of 955.5 million dollars for emergency disaster and reconstruction assistance needed as a result of recent hurricanes in Central America and the Caribbean and the earthquake in Colombia. Of this amount, 687 million dollars are for activities under the jurisdiction of this subcommittee. We will focus on these programs at this hearing.

The request includes $621 million for economic support for reconstruction assistance; $41 million for debt relief and restructuring through the Treasury Department; and $25 million for the disaster relief account.

On a bipartisan basis, this subcommittee has strongly supported increased assistance for Central America and the Caribbean for the past 4 years. Unfortunately, we have been unable to convince the administration of how important we think this area of the world is. But I think all of you here today who have attended hearings in this regard understand how important we feel protecting countries and assisting countries in this hemisphere is, and we are sorry that this disaster assistance is necessary. But, nevertheless, I think it follows the pattern and the philosophy of this committee in recognizing the importance and need of supporting our neighbors in this hemisphere.

The State Department, USAID and the Defense Department are to be commended for the assistance they have already provided to the region in the wake of the natural disasters. In addition, the pending supplemental request is a thoughtful and comprehensive approach to reconstruction, particularly in Central America. I want to be helpful to the administration in this effort.

Even more, I want to be helpful to the people of Latin America who have suffered so terribly in the past 6 months. This is a constructive request, and I believe it can be and it should be considered expeditiously by the Congress. I want to point out, however, that we still do not have much detail on how the funds will be used. We will need additional and detailed information in order to justify to our members on the Appropriations Committee and to the Congress of the almost $1 billion in supplemental funds.

We may consider this request in full committee as early as next Thursday. Due to time constraints, we do not intend to have a subcommittee markup. I will be making a recommendation based upon what I hear today and in consultation with Ms. Pelosi and Mr. Obey. Therefore, we must have questions for the record answered in the next 5 days so we can have a hearing record for floor consideration.

I would ask that if members have questions for the record, they submit them to the subcommittee staff by the close of business today.

We are pleased to have two distinguished members of the administration with us here today to explain the $687 million request. We have Brian Atwood, the Administrator for the Agency for International Development, and Peter Romero, the Acting Assistant Secretary for Inter-American Affairs. We welcome both of you.

When you present your statements, we will accept your entire written statement for the record and we ask that you abbreviate your opening statements as best you can.

Ms. Pelosi.

Ms. Pelosi's Opening Statement

Ms. Pelosi. Thank you very much, Mr. Chairman. I want to join you in welcoming our distinguished witnesses here this morning. I am pleased to be able to work with you as you so positively suggested that you wanted to be helpful to the administration and as you said, more importantly, to the people of Central America who are suffering through this.

I look forward today to hearing the testimony on the administration's request for 875 million, most of which comes from our subcommittee, for appropriations for emergency disaster and reconstruction assistance for Central America, the Caribbean and Colombia.

As we have all heard, Mr. Chairman, Hurricane Mitch was the worst natural disaster to hit the Western Hemisphere in recorded history, causing an estimated $10 billion in damage, and thousands of people died and many more were left homeless. This event, along with the earlier Hurricane Georges in the Caribbean and the more recent earthquake in Colombia, have brought this request for emergency assistance before us.

So we must act expeditiously, and we must act cooperatively. I am blessed in my district, Mr. Chairman, with many people from Central America, and the outpouring of support for them and from the population generally in our area and throughout the country, demonstrates very clearly that the vast majority of the American people support well directed humanitarian assistance.

The American people's response to this disaster was truly heartening and indicative not only of the widespread sympathy and the support for the needs of our southern neighbors, but again, as I say, in a more general way for well-directed humanitarian assistance. In our area, we had such a tremendous outpouring of goods and money and resources for Central America that it presented some challenges in getting the donations there.

I hope in the course of our hearing today, Mr. Atwood, we can talk about how we can send a signal to the American people that when disaster strikes, and God willing we won't have to deal with many more in the future, that there is a better way to help and that is sending money first, because it costs money to send something that came out of your closet, as generous as an offer as that might be.

I understand that the President will be going in March to Central America, and I know he will bring the good wishes and hopefully the resources that we talk about today, to the people there. I hope that he will, when he visits Guatemala, also

express the concern of many of us here about the unresolved mystery of the assassination of Bishop Gerardi, who died shortly after releasing the commission report on human rights in Guatemala.

As the chairman indicated, the request includes not only needed funds for reconstruction in the countries in Central America, but also includes funds to expand debt relief packages, which I think is a very important element of this package, and to restore defense expenditures made to provide immediate assistance to the region in the wake of the disaster.

I would hope that the funds of the recovery would recognize the important role that women will make in this recovery and make in the economy of these countries. As you know, Mr. Chairman, when we visited there, we did see many examples of successful microlending projects there. And I hope that the assistance will reinforce the role of women in this recovery and also that this assistance will help in the economic development of the region.

Another reason why it is not necessary to send so many goods there is if it displaces the market opportunity in these areas. Sometimes our compassion is not as well directed as it should be.

I join you, Mr. Chairman, in welcoming our witnesses today, Brian Atwood, the Administrator for USAID. I understand he is moving on to other things. I hope that we will have more occasions to recognize him and thank him for his great leadership, his effectiveness, and indeed his compassion. And I want to join you in welcoming Secretary Romero as well.

We will move expeditiously on this request so the critical reconstruction efforts can begin before the onset again of the rainy season. Although Hurricane Mitch was a horrible disaster, it has brought about the return of consensus on the Hill to provide significant resources for the region. Our chairman has been a champion in that regard and in many other regards as well, Mr. Chairman, for Honduras and Nicaragua in particular.

It is my hope that the provision of this assistance becomes the springboard for economic and social development which lifts these countries out of the grinding poverty they have suffered under for far too long.

With that I look forward to your testimony, gentlemen. Thank you, Mr. Chairman.

Mr. Callahan. That is Ms. Pelosi.

Mr. Atwood.

Mr. Atwood's Opening Statement

Mr. Atwood. Thank you very much, Mr. Chairman, and thank you, Congresswoman Pelosi, for your comments as well.

Mr. Chairman, I know that you are very strongly supported by the people of your district, but it is indeed intimidating to see who is supporting you behind you today, you have the entire U.S. military. It is normally intimidating for an administration witness.

But I am pleased to be here today with Ambassador Romero to discuss the President's request for an emergency supplemental for Central America to respond to the hurricane that did so much destruction in that region and in the Caribbean. Much has

already been said and written about these hurricanes. Many of the grim details are covered in my formal written testimony, which I have submitted for the record.

Our government and the American people have responded to the suffering in Central America with the largest relief operation we have ever directed at any natural disaster, an unprecedented response in which every American can take pride. Here in Washington we have seen a powerful and truly bipartisan response. Many Members of Congress from, both parties have gone to Central America for a firsthand look at the devastation and the relief program.

The First Lady and Mrs. Gore have led bipartisan delegations, and the President, as you indicated, will soon visit the region. Mr. Chairman, you and Congresswoman Pelosi have always paid special attention to this region. You and I traveled together to Nicaragua. We visited the countryside outside Managua and we saw the great progress that country was making in developing its agricultural sector and its economy.

I know that you appreciate the importance of this region to the United States and that you are aware of the terrible damage this hurricane has done. All the reports have indicated that these countries are in crisis and will remain in crisis for the foreseeable future. This situation remains an emergency and our request is for an emergency response. There have been more than 9,000 reported deaths and another 9,000 men, women and children are missing in the four countries hit by Hurricane Mitch.

At least 3 million people were either forced out of their homes or saw their homes destroyed. Total damages, direct and indirect, have been estimated at between $7.5 billion and $8.5 billion. In some areas, entire crops were lost. In Nicaragua, losses in rice, corn, beans and coffee and vegetables range from one-third to one-half of the total crop and even higher.

The region's social infrastructure suffered extensive damage, over one-third of Honduras' 10,000 schools were damaged or destroyed, hospitals and health clinics were hard hit, and due in large part to our interventions, we have not seen the epidemics we feared. The danger still exists, but thus far we have stopped what could have been a follow-on disaster in its tracks.

In the aftermath of the tragedy, the United States launched a relief effort that has lived up to our highest standards of compassion and world leadership. At one point, we had over 5,000 U.S. personnel, civilian and military on the ground in Central America providing relief, short-term rehabilitation and medical assistance. Even as the relief operation was getting started, we were working to involve the U.S. private sector in the reconstruction campaign.

At a December conference hosted by USAID and the White House, seven members of the President's cabinet met with leaders of more than 400 U.S. companies to discuss ways our government, private companies and American citizens can work together in the relief effort. We are matching donations of goods and services from U.S. firms, more than 50 so far, with$8.5 billion. In some areas, entire crops were lost. In Nicaragua, losses in rice, corn, beans and coffee and vegetables range from one-third to one-half of the total crop and even higher.

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Moreover, we estimate that more than 11 million pounds of food, clothing and medical supplies valued at more than $28 million have thus far been donated by individuals, schools, churches, civic organizations, as well as businesses and corporations. As Ms. Pelosi knows, we attempted, as best we could, to transport much of these goods to Central America under the Denton program, a special provision of law that allows military training flights and ships to transport donated goods to the region.

There was at one point an expectation that everything that was donated would be transported. We couldn't obviously do that. Under the Denton program, we stretched the law to the limits to get this much to Central America, but did run into problems, with full warehouses where there was no inventory of the goods.

inter-american development

At the Bank's Consultative Group meeting in December, the donor nations pledged $6.3 billion in emergency relief and reconstruction. We will meet again in Stockholm in May to solidify these commitments for the international effort in Central America. Today, thanks to this great international effort, most people in the affected areas have food, shelter and running water. And in Honduras, for example, an estimated 1 million people were displaced in the immediate aftermath of the hurricane, but today all but 20,000 of them have housing, and those are now living in schools or shelters.

With the region's life-threatening needs largely met by the initial relief effort, we have entered a second phase of recovery which we call rehabilitation. This is a transitional phase during which we want to help people return to normal lives with regard to such needs as education, transportation and public health.

Looking ahead, our goal is a reconstruction that does more than replace what was blown or washed away. We want to see the

countries of this region achieve even stronger, more prosperous and more sustainable democratic development. Less than a decade ago, as you well know, most of these countries were engaged in civil wars that lasted for years, even decades, but now peace has been achieved, and with it, democracy, free elections and open markets. It is upon this foundation we seek to restore and to build upon.

Last week, the President submitted to Congress this proposal for $956 million for an emergency supplemental appropriation, with the funding to be used for the following specific purposes: $283 million to restart local economies by repairing more than 700 kilometers of rural roads, by providing 70,000 microenterprise loans, by providing seeds, tools and fertilizer for almost 5 million farmers and by helping 65,000 hillside farmers adopt sustainable production techniques;

$136 million for public health programs to reconstruct or rehabilitate more than 750 health posts and clinics, to benefit at least 4 million people, to provide water and sanitation services for nearly 4 million people, and to provide disease controls, surveillance and prevention for more than 17 million people;

$64 million to provide technical assistance for environmental management and disaster mitigation, including land use planning, resource management, protection of ecosytems and replacement of destroyed harbor navigation aids in Honduras, Nicaragua and El Salvador;

$55 million to repair and reequip more than 1,700 schools, to establish more than 6,000 open air schools, to build more than 6,000 new housing units, and to provide school supplies to more than 200,000 children;

$42 million for reconstruction assistance in the Dominican Republic and other Caribbean nations hit by Hurricane Georges to focus on health, housing and economic revitalization;

$12 million to help local governments manage reconstruction assistance, including anticorruption training, designed to avoid diversion or scandal in the reconstruction program; also $10 million for law enforcement to develop anticorruption programs, including internal audit-oversight mechanisms and automated immigration records for border crossing points;

$3 million to continue to work with the private sector in the United States by targeting additional U.S. private sector donors, by helping coordinate delivery of donations and by helping monitor distribution of donations in Central America;

$10 million to help Colombia recover from its recent earthquake, focusing on health, housing and schools.

The President's proposal also includes $41 million for debt restructuring and relief, including $16 million for the budget cost of reducing Honduras' bilateral debt with the United States and a $25 million contribution to a Central American Emergency Trust Fund to help cover the cost of debt service owed by these nations to the World Bank and other international financial institutions.

The proposal additionally includes $25 million for USAID for international disaster assistance of which $20 million will partially replenish immediate disaster relief expenditures in the aftermath of Hurricane Mitch. The proposal includes $188.5 million for the Department of Defense, $132.5 million to

replenish accounts that were used during the U.S. military's superb response to this emergency and $56 million to fund expanded U.S. National Guard and Reserve ``New Horizons'' exercises in the four Central American nations and in the Dominican Republic.

Finally $80 million will go to the Department of Justice's Immigration and Nationalization Service to deal with the increased number of illegal immigrants coming from Central America as a result of Hurricane Mitch.

These are the major elements of the President's proposal, and I note that the total proposed U.S. assistance to Central America, although substantial, represents only an estimated 10 to 12 percent of the total needs created by the disaster. The total, if this $956 million request were to be approved, would be $1.2 billion, if you add the $305 million that we have put into emergency relief.

We truly are part of an unprecedented worldwide relief effort. Clearly since this is very much our neighborhood, we are in the lead. The President's upcoming visit to Central America will dramatize his personal commitment to the reconstruction. He shares my gratitude for the bipartisan support this effort has received, and he has instructed all elements of his administration to pursue a comprehensive approach that addresses such related issues as trade, debt relief, immigration and reconstruction assistance.

If we are to help this region move from crisis to recovery, we need to use the mechanisms of open markets that foster expanded trade. The administration has long been committed to the Caribbean Basin Initiative Enhancement legislation, and the administration will soon send a proposal to enhance economic growth in the region by expanding the trade benefits of the Caribbean Basin Economic Recovery Act.

This extraordinary disaster is also an extraordinary opportunity to assist our neighbor nations in Central America. Our goals should not be simply to replace what existed before, but to build back better. Such an ambitious undertaking imposes solemn obligations, both on us and on the nations we seek to assist.

Mr. Chairman, we need to move quickly into the third phase, the reconstruction phase. We want to help provide people with hope for the future and help them stay in their homes. A recent New York Times article interviewed some of the refugees who are trying to make their way north to the United States. The article made clear that most of those people don't want to come here, but they are desperate to find work and to provide for their families.

Our goal is to help those people stay in their native lands and return to the productive lives they led before the hurricane blew their world apart.

Thank you very much, Mr. Chairman.

[The statement of Mr. Atwood follows:]

[GRAPHIC(S) NOT AVAILABLE IN TIFF FORMAT]

Mr. Callahan. Thank you, Mr. Atwood. I might just comment about your comment about the full faith of the military behind me. As you know, we will be having committee hearings here in

just a few weeks on your request for the next fiscal year. And we may take this same room, except we are going to turn you around and let you look at the painting on the back wall----

Mr. Atwood. I have seen it, Mr. Chairman.

Mr. Callahan [continuing]. Which might give you the indication of what might happen if you do not obey the suggestions in our committee report.

Mr. Atwood. Is there a weapon aimed at my back? I assume so.

Mr. Callahan. Mr. Secretary.

Mr. Romero's Opening Statement

Mr. Romero. Thank you. I will keep that in mind, Mr. Chairman, and also in terms of the brevity of my comments, I would hope that we would all use smart weapons in the future though.

Thank you very much, Mr. Chairman, for the opportunity to appear before you. I think Brian Atwood, Administrator Atwood, has done a magnificent job of essentially focusing in on the reconstruction component, in particular. And what I would like to do is frame the policy parameters and some of the things that perhaps were not included in his excellent presentation.

To say that Central America underwent or experienced a tragedy would be to understate the case.

But what compounds this tragedy is that it came when the societies were emerging from the darkness of political divisiveness, internal struggle and Civil War. They were engaged in a process of profound transformation, a process in which the United States Government with congressional support has invested heavily. The countries of Central America and the United States are bound together geographically, politically, economically and socially.

Americans in Congress, the executive branch and private citizens with NGOs all played very important roles in encouraging and supporting various peace processes in Central America. Through our political support, economic assistance and technical expertise we have worked together with our friends in Central America to end the conflicts, to bring political stability and democracy and to jump start economic regeneration in a once troubled region.

But let us make no mistake about it, stability and growth in Central America don't only benefit the citizens of those countries. Our extensive training investment directly benefits U.S. companies which hold the lion's share of these fast-growing markets. In fact, Central America's 30 million people buy more U.S. exports than the 1 billion people of India.

It is clear that we should help Central America build because it is the right thing to do, but helping them helps the United States as well. Throughout the '80s many in Central America fled north in an attempt to find peace, security and economic opportunity, and to enable their families to rebuild shattered lives. But illegal immigration stretches the resources of the USG, while threatening the lives of the very people who attempt it.

The potential for increased flows of Central Americans to the U.S. is great, and INS currently does not have adequate

resources to properly detain and process large numbers of newly-arriving illegal immigrants. Only reconstruction and economic opportunity can provide the impetus to lessen the push-pull factors that cause central Americans to go to the U.S. The fight against the transnational crimes of drug and migrant trafficking is also a very high priority with this request, Mr. Chairman.

The Department of State would like to significantly increase embassy budgets to effectively fight these crimes brought about by the increased vulnerabilities resulting from widespread damage and desperation.

It is important to note that included in the supplemental is $80 million for INS towards additional detention space for illegal aliens.

We have also included in the supplemental a request for hurricane recovery efforts in Haiti, the Dominican Republic, and the eastern Caribbean which were struck by HurricaneGeorges earlier last year. The economies of these countries particularly vulnerable to economic forces were dealt a body blow by Georges, leaving them more open to instability, narcotrafficking, international crime and the inevitable pressures to seek the avenue of illegal immigration to the United States.

Also, included, Mr. Chairman, in the supplemental is a request for $10 million for Colombia for disaster relief for the recent earthquake that killed almost a thousand people and caused up to $1.5 billion in damage. There is an important need to address Colombia's most immediate relief needs, particularly in housing and in the medical areas.

Returning to Central America, we have also proposed debt relief for Honduras and Nicaragua to permit them to harness their own resources in the recovery effort. Our package includes deferral by the U.S. of all bilateral debt obligations from these countries for the next 2 years, forgiveness of 90 percent of Nicaraguan bilateral debt and two-thirds of Honduras debt.

As all members of this committee are aware, encouraging prosperity through increasing foreign trade and investment is the cornerstone of U.S. policy.

For Central American recovery, it will be necessary to attract capital investment to generate employment. We are Central America's main trading partner. In fact, U.S. exports to Central American regions exceed our support to all countries of the former Soviet Union and Eastern Europe combined. CBI has direct benefits to the U.S. private sector. For example, approximately 80 to 85 percent of apparel exported into the United States from Central America uses high-quality U.S. fabric and thread.

We are convinced that CBI enhancement is a vital component to the recovery effort and one of the most effective means of promoting growth. The administration is working on a proposal to submit to you, Mr. Chairman, to enhance the Caribbean Basin Initiative that will provide significant benefits for the region. We greatly appreciate the efforts being made in Congress in support of CBI enhancement. And we take your point, Mr. Chairman, about the need for haste in working with you to secure early enactment of generous CBI enhancement legislation.

Finally, we have and will continue to reach out to the

private sector, to engage it in the reconstruction efforts. The Overseas Private Investment Corporation, or OPIC, has recently signed a partnership with Citicorp to make available over $200 million in new financing to small- and medium-sized projects in the region. USAID sponsored an extremely successful conference last December involving seven cabinet members and hundreds of major U.S. corporations aimed at encouraging private aid and investment to the region.

On migration we have responded to Central America concerned by granting temporary protected status to Hondurans and Nicaraguans, while providing more limited relief to Guatemala and El Salvador. Furthermore, the administration is committed to addressing disparities among different nationalities resulting from the Nicaraguan Adjustment and Central American Relief Act, also known as NACARA.

Before closing, I would like to also reference the magnificent job that the U.S. Armed Forces has done in the region over the last couple of months. There were a total of about 5,000 U.S. military personnel in the region repairing roads, building critical infrastructure, meeting health needs, sanitation needs. The U.S. military delivered 9 million pounds of privately donated goods with an estimated $28 million in value.

The U.S. Reserve and National Guard units, have begun a humanitarian and civil action program which will involve more than 20,000 U.S. servicemen over the next several months to build health clinics, schools, repair roads, bridges, drill water wells and conduct medical readiness training exercises.

Mr. Chairman, we intend to work together with members of your committee and Members of Congress to help our Central American friends to ensure that they can continue their journey out of the turmoil and misery caused by this disaster.

Thank you very much.

[The statement of Mr. Romero follows:]

[GRAPHIC(S) NOT AVAILABLE IN TIFF FORMAT]

accountability

Mr. Callahan. Thank you, Mr. Secretary. I sense a great degree of compassion on the part on my colleagues and the Congress on both sides of the aisle to facilitate the suggestions of the administration with respect to assistance to this area of the world.

At the same time, we have a tremendous responsibility here, because we are responsible to the American people for the monies that are spent in any area of the world. First of all, I think the American people agree with the Congress, that any time an American person sees someone suffering, with or without a disaster, they are very compassionate. And they don't object to the Congress providing food or medical services or educational opportunities to needy people.

They do not like, however, to see the government or the Congress giving governments the authorization to forgive debt that has nothing to do with the national disaster. They do not like, to the best of my observation, seeing us give money to governments that can be taken and deposited in foreign banks.

So as long as we are convinced, Mr. Secretary, and, Mr. Administrator, that this money is going to provide relief for the people suffering in Central America, you are not going to have any problem. But you are going to have some questions about debt forgiveness. I don't know how that is going to relieve suffering of these people. I don't know why if we want to go into some type of debt relief or forgiveness of debt that can't be handled in the regular appropriation process.

That is not an emergency supplemental need or a justifiable need. So, I question that. Also we still do not have a full accountability of how this money is going to be spent. Say we are going to spend a couple of hundred millions in Honduras, that is good, and there is no question if you need a couple of hundred million dollars. I am certain this committee and the full committee will provide you those monies. But we have to have a little bit more than just a request to give you $200 million, because that is what you think you need.

So we are going to have to have a more detailed explanation and have to have it quickly before we are able to take this thing to the full committee or to the floor because someone has to justify it. It is going to be up to me and Ms. Pelosi to explain what the money is for. We just can't go say that Secretary Romero and Administrator Atwood said it was a good idea, we can't use that.

debt forgiveness

We have to have more detailed explanation of the justification for such things as debt forgiveness. I for one am not going to agree to any type of an ability to give any of these countries monies to pay off other country's debts that they owe. If they owe money to Japan, let Japan forgive debt. We are not going to give monies to these countries, or at least I am not going to agree to give money to these countries to pay off debts to other countries, other than maybe the forgiveness of debt to the United States.

I realize that there is very little possibility that we are going to collect the money that they owe us, which is not that much, and maybe we can look at that. But we must be absolutely certain that this money is not going to be used by the leaders of these two countries, especially Honduras and Nicaragua, to be placed in bank accounts or to pay off some debts to foreign countries. We are going to have to have a more detailed explanation with that regard.

I have not been to Central America since the hurricane. I think that it probably would be in the best interests of this subcommittee to plan a CODEL between now and the conference. It gives us a very small amount of time.

I know the President is planning on going. I know the First Lady has already been there. They don't seem to know that we are in existence when these trips come about, they might--they always go to the International Relations Committee and tell them to go look at the need. So maybe when they get back, they can get the International Relations Committee to appropriate them some money. But I have not been down there.

But we need information from you to tell us what you need the money for in a detailed manner, so we can go down there and

look at what you are talking about. So we can arrange a meeting to visit Honduras one day, maybe a Saturday and then Nicaragua maybe on a Sunday, during this process, but we need some more detailed explanation, other than just the total amounts that you have expressed here.

corps of engineers

Mr. Atwood, over the last several years, the committee has included, and I know you have been cooperative with respect to negotiations with the U.S. Corps of Engineers about the utilization of the U.S. government engineering facility that we have, which is the Corps of Engineers. They have facilities there, and I hope that you certainly will take advantage of this asset and consider the utilization of the U.S. Corps of Engineers and engineering needs for reconstruction in this region.

Mr. Atwood. Mr. Chairman, the answer to your question is we have been using the Corps of Engineers. They have done a complete assessment of the infrastructure damage in the region. I mentioned it in my open remarks. They have been vital to us in our work in assessing the damage, and they I think will support the request that is before us. We will continue to work with them. We will continue to transfer resources to them, because again their professional qualifications are superb for working with us on the particular types of challenges we face.

I wanted to say one--just one brief word realizing, of course, that you are going to ask us a lot of questions for the written record. I very much appreciate the schedule that you indicated you were going to follow here in trying to get this before the full committee by next Thursday. I believe you said it is absolutely vital that we move quickly.

While I mentioned that the United States will only be providing a small percentage of the resources needed for this reconstruction effort, the fact of the matter is, we can move faster than any other nation or any other international financial institution, and we need to show the people of this region that there is hope, that they are going to get their jobs back, that they are going to see their homes reconstructed. So it is really vital for us to move quickly.

debt relief

The questions relating to debt relief, I couldn't agree more with you, that if there is a debt to Japan, Japan ought to forgive the debt. What we are asking for in this particular proposal is for an appropriation to cover the U.S. debt. We are also asking for a contribution to a trust fund so that they can help alleviate the pain of having to service debt to the international financial institutions--a contribution of only $25 million. Many other nations are also contributing to thattrust fund.

We are also going to suspend debt payments for 2 years, and I want to try to illustrate why we are asking for these resources or to help them forgive their debt. They are going to have huge fiscal deficits. We know what those are. We haven't forgotten what those are in this country. But these are the

results of this tragedy. These governments have been reforming their economies very, very well. But this has hit them very, very hard. In Honduras alone there is a $110 million deficit one year and a $109 million deficit the next year.

If they have to continue to pay their debt servicing, that will even add to the deficit, so what we have proposed is this trust fund. We have also proposed in one case, in the case of Honduras, a very unique thing that I know you don't generally like, but I hope you will consider the special circumstances, which is a balance of payments relief. We would be putting money into a bank account which we will control. They will agree to produce local currency for projects to help in the reconstruction. So there is a double benefit for us. We help them with their fiscal deficit and their debt problem, and we also are able to produce local currency for actual reconstruction costs.

I recognize we have had discussions about this, and I know where you stand generally on this kind of thing. But I hope you will look at this again. This is a unique situation.

Thank you, Mr. Chairman.

Mr. Callahan. It is unique, Brian, but at the same time it is not an emergency supplemental need. It is something that philosophically if you want to enter into in the future that could be addressed in your regular appropriation process. I don't think that this is of such a dire emergency that it would fall under the need of an emergency appropriation.

I know it is part of a long-range solution to the problems of Nicaragua and Honduras, but at the same time, we are here discussing the need for an emergency supplemental bill, a bill that is going to count against the surplus we have created over the past few years. It is not going to be offset by reducing monies that we have already appropriated to other entities or agencies. It is an emergency supplemental request to provide relief to the people of Central America who are suffering.

They are not suffering because of the debt they owe to some bank or to some other country. They are suffering because they need the humanitarian efforts that your agency is providing and will provide. And if we need to go into some long-range correction of the financial problems that will be facing them in the future, then maybe we ought to address that when we have time and in full committee.

I am not saying absolutely no. I am saying let us not take advantage of the feeling and the compassion of this Congress with respect to wanting to help the suffering people of Central America.

Mr. Romero. Mr. Chairman, if I might just add a little bit of background on the other creditors to both Honduras and Nicaragua. We have already been in touch with the Paris Club creditors, the major creditors for both of those countries. Essentially we have agreed to work together so all of the major creditors would reduce or forgive debt. It wouldn't be that we would forgive our bilateral debt so they could pay Japan, we would all bring it down together.

Mr. Callahan. We would hope that would be the case. My five minutes is up. And we want to make certain that everyone has an opportunity to submit questions.

So, Ms. Pelosi, your 5 minutes begins now.

Ms. Pelosi. Is my 5 minutes equal to the chairman's 5 minutes? No. Thank you very much, Mr. Chairman, I appreciate the direction that your line of questioning was going.

Although we are not in complete agreement, I would say to our witnesses that I know of no chairman who has been more supportive of the discretion of the administration to make a plan in the interests of our national security and providing the assistance any place in the world, in this case, emergency assistance in Central America.

I differ with him on the perspective on debt relief, however. In fact, I think the package should have more debt relief in it, because I see debt relief as central to the alleviation of poverty, which has been exacerbated by the hurricane and the other natural disasters. Both Honduras and Nicaragua were in the midst of debt relief negotiations when the hurricane struck.

I believe there is consensus to provide these countries with significant additional debt relief beyond what was contemplated prior to the disaster and, indeed, the administration's request reflects that. You have explained a little bit what your intentions were in regard to the $41 million specifically requested for debt relief. If you could quantify the benefits to both countries, in terms of changes in anticipated debt payment schedules, I would appreciate that.

honduras debt

Let me just also add that I was interested in your explanation of the $30 million to Honduras, because I think that that did raise questions. That was going to be one of my questions to you, are these funds to be used to forgive debt of Honduras that they owe to other countries? My conclusion from your responses was that it would not be used for those purposes. Is that correct, forgiving the debts of other countries?

Mr. Atwood. No, that is right. It would be used to deal with the international financial institution debt that Honduras faces.

Ms. Pelosi. Or bilateral?

Mr. Atwood. Multilateral, the World Bank and the IDB and other debts.

Ms. Pelosi. I understand the multilateral side. All the debt forgiveness contained in this package is not only the 30, but all of it is either for bilateral forgiveness of U.S. debt----

Mr. Atwood. That is right.

Ms. Pelosi [continuing]. Or multilateral to the IFIs but not to assist a country in forgiving debt of another country?

Mr. Atwood. That is right, Ms. Pelosi. And in the case of the $30 million, it would produce counterpart funds, local currency, that would be used for reconstruction.

Ms. Pelosi. I understand.

Mr. Atwood. That is what is the vital aspect of it, that is what I think makes it part of the emergency supplemental.

Ms. Pelosi. But then because the chairman's leadership and support is essential to the success of this package, could you quantify the benefits to both countries, Honduras and

Nicaragua, in terms of the changes in anticipatednear term debt payment schedules?

Mr. Atwood. Forgiveness through the Paris Club of additional reductions beyond those already committed to by the United States of $19 million of Nicaragua's eligible bilateral debt for a total reduction of debt of $75 million, or 90 percent of Nicaragua's debt, and $26 million of Honduras' bilateral debt for a total reduction of $103 million, or 66 percent of that debt. The total previous bilateral debt to the United States for Nicaragua was $84 million and for Honduras $154.2 million.

Ms. Pelosi. How will you monitor the $30 million that you are converting into local currency for development purposes in Honduras?

Mr. Atwood. It is placed in a U.S. bank, and we control the use of the money. Then they agree to produce local currency to that level in Honduras, which is used for reconstruction. So it is kind of a double benefit. We help them with their fiscal crisis, and we also are able to do reconstruction aid.

opic

Ms. Pelosi. I have a couple more questions on debt, maybe I will have another round. But I did want to get to another subject. Secretary Romero mentioned OPIC, and I understand that OPIC may be considering guarantees to at least one banana company for their investment in Honduras.

I hope that your efforts will ensure enforcement of workers rights provisions of OPIC and that those discussions include frank discussions with the Honduran banana workers. Will the U.S. be providing any assistance to support--I asked that question directly--the rehabilitation of the so-called independent plantations that supply, in this case Chiquita, Dole and DelMonte and, if so, what steps are being taken to ensure that these plantations are meeting acceptable standards with respect to environmental concerns and treatment of workers?

Mr. Atwood. Those companies obviously can access the OPIC $200 million equity fund that is being put out there. But for the most part, they have also taken steps to replenish that land themselves. If they need loans or if they need the OPIC fund, they can access it. We are mostly using our reconstruction aid to help to reconstruct access roads so they can get those crops to markets.

But I take it your point, and as chairman of the OPIC board, I will make sure that all of those fair labor provisions are respected, that OPIC is obliged to honor in any case.

Ms. Pelosi. Thank you. Thank you very much, gentlemen. Thank you, Mr. Chairman.

Mr. Callahan. Before we go to the chairman of our full committee, let me just ask a question. You said you are going to take $19 million and pay off a $75 million debt?

Mr. Atwood. I'm sorry, I was referring to the amount that we would need to have appropriated in order to excuse that debt, the debt is discounted based on a formula that is used.

Mr. Callahan. So Honduras owes $75 million and you are going to give them 19 million, and they are going to call it

even? I would just like to know the name of the bank.

Mr. Atwood. No. Pete Romero has reminded me we have a Treasury Department official here, if you would like to get into the detail of how debt is calculated.

Mr. Callahan. Here we are going to give them $19 million to pay off a $75 million debt, because they are discounting.

Mr. Atwood. We need to appropriate a certain amount. I understand your point.

Mr. Callahan. Why don't we get it discounted down to $2 million is what I am saying, while we are negotiating. In any event, Mr. Chairman, we are happy to have you with us today for your first subcommittee meeting, I think, with this subcommittee since you assumed the chairmanship. We welcome you, and the floor is yours.

Mr. Young. Mr. Chairman, thank you very much. I appreciate the opportunity to have a few minutes this morning. Thank you very much.

supplemental account structure

I am concerned about how we will structure this account for the supplemental for the reconstruction and rehabilitation activities. There is a request for $621 million from you as a supplemental appropriation to the Economic Support Fund. My understanding is that means they will be merged with other funds; am I correct in that understanding?

Mr. Atwood. It will be handled separately, Mr. Young. It will not be merged. In other words, it won't be eligible for use in other parts of the world. It will be very much handled separately. Most of it will be transferred to USAID, and then if other government agencies are involved, we would then transfer support to them.

Mr. Young. Because of the importance of responding to this great tragedy and the strong desire of this committee to keep track of all of these funds, how would you react to the creation of a special appropriations account for the reconstruction and rehabilitation account?

Mr. Atwood. I think if we can use it for the purposes that the request indicates, then I am not sure. I think that is a matter for budgeters to discuss. I am not sure I understand the implications, Mr. Chairman. But I certainly would like to take that back to OMB, who are the experts on this at our end of town.

[The information follows:]

Special Appropriations Account For Hurricane Reconstruction

The Administration would prefer using the existing account structure, augmented by additional reporting requirements rather than creating a new account structure. However, we are not strongly opposed to a new structure and will work with the House and Senate Committees on a structure that will allow us to move forward with this important funding.

Mr. Young. Do that if you don't mind. We would be glad to hear from you on that. We are concerned about being able to provide the proper oversight and keep track of the money that

we are appropriating.

And then, Mr. Chairman, I would like to ask one general question that you may have already touched on, with regard to the commitments that are made and the offers that are made to help our friends and our neighbors in times of crisis that we are dealing with now. I don't know of anyone that objects to our coming forward to help.

When a dollar amount is determined and a dollar amount is announced, someone says we are going to give you X number of dollars, how accurate is that estimate? Is it based on a specific documentation of damages inflicted or is it a guess? Realistically, where are we there?

Mr. Atwood. Mr. Chairman, it is based on the best assessments we can come up with. I mentioned the Corps of Engineers earlier. They helped us make assessments. We have other assessments that we have used. The IDB has done assessments and other bilateral donors and the governments themselves. So, we know we have a good fix on what we have been asked to do and then we look at our comparative advantage. What should the United States be doing? What can we do to help these economies recover faster, so that the cost of this storm isn't even multiplied by lack of economic growth over the years?

We know we can move faster than other countries to get some of these things repaired. So we look at our comparative advantage, and that is what makes up this particular request that is before you, Mr. Chairman.

Mr. Young. Mr. Chairman, thank you very much.

full accountability

Mr. Callahan. Thank you, Mr. Chairman. For your information, we did touch on your subject matter. And we have requested that the Administration provide us before next Thursday's markup out of full committee a full accountability of what they are going to use the money for, and also give the subcommittee between the markup, the floor and the conference report, an opportunity for maybe a two-day CODEL to go down there and actually look at some of the sites they are talking about. So we have requested that they submit this information in writing before next Thursday.

[The information follows:]

[GRAPHIC(S) NOT AVAILABLE IN TIFF FORMAT]

Mr. Wolf?

nicaragua

Mr. Wolf. I thank you, Mr. Chairman. Welcome. A couple of issues. One, I think it is important that the committee do this and that the country do this, because there were a number of us who back in the '80s felt very strongly that we should defeat the Sandinistas. I was one who even voted to mine the harbors of Nicaragua. So we were helpful with regard to defeating Communism down there, the people in Nicaragua were very helpful allowing the Contras camps to operate, which I think was very important.

habitat for humanity

So for those reasons and I had a daughter that was in a mission project down there for 2 years, up at the last year, and the poverty before this was so great. Two questions, one, the Habitat for Humanity people have come by. I think they made a very good presentation with regard to permanent housing that will last forever, and if a man or a woman owns their own home they are likely to stay there.

And does this amount cover the Habitat for Humanity request? $50 million, 10 million a year for over 5 years homeownership?

Mr. Atwood. We have been approached, as you have, by Habitat. They have made a very large request of $50 million for 5 years. We want to work with Habitat. We have the same feelings towards them that you do. We want to use their expertise. We have a lot of private donations that are also coming in to build housing of various types. We also have to build houses fast. We are now in a transitional phase where we are trying to get people out of schools.

We are using some Office of Foreign Disaster Assistance resources to make temporary shelter for those people so that we can reopen the schools. But then we are going to build under this proposal 6800 homes, and those will be permanent homes. Now, we are looking at Habitat's proposal. We are looking at other proposals by other nongovernmental organizations. And we are looking at private donations to try to do that. We want to do it as quickly as possible and for as little cost as possible, so all I can say to you right now is that Habitat has a wonderful reputation. And we are looking at that proposal and seeing how it fits with other proposals that we are receiving.

Mr. Wolf. Good. I hope they will be included. They will leverage much more. They are also planning to bring a large number of American teams down there for a period of time. sweat equity.

Mr. Atwood. Right.

mine detention dog teams

Mr. Wolf. I am glad to hear that. Secondly, there was a request for 1.2 million for mine detention dog teams. The floods came and the water came and many of the mines have shifted and moved. And if you were in El Salvador during the '80s, you would see many young kids with arms off and legs off going down to the rivers and all. Is that part of this inquiry? Are you going to put that money in for mine detection dog teams?

Mr. Atwood. We have done some of this work with the U.S. military that is on the ground. We don't have a specific item in this request for 1.2 million for mine removal, but we have this request for the New Horizons project where U.S. military will continue to work with us, mostly on infrastructure. But they will be in the region for some time to come and they have the best facilities I think for finding this.

Mr. Wolf. You are going to be sending them to Kosovo and Macedonia, and I mean I think our military are so stretched

that I really think the more we--if you would take a look at the requests with regard to the dog teams----

Mr. Atwood. Right.

religious freedom act

Mr. Wolf [continuing]. I think it would be helpful. Lastly, if you could take back or Secretary Romero, Mr. Secretary, this is a little off the subject, but I would like you to take this back, and give me an answer, if you can. Last year a group of us, the Congress, passed the religious freedom bill. There is persecution of people of faith in China, Tibet, and Sudan and many other places. The administration did everything they could to fight the bill. They fought it tooth and nail. They were up here lobbying against it. It passed. And the President made a statement about it and at the National Prayer Breakfast. He got up and said how wonderful it was that this bill had passed. There was no money in the budget request, the FY 2000 appropriations request by the administration.

Can you tell me why the administration did not request the money when the President got up before 3,500 people saying how wonderful this bill was, and it passed in October. November has gone by, December has gone by, January has gone by, February and no request?

Mr. Romero. Mr. Wolf, I would like to be able to respond to that question, but I can't. I know about the bill and I know about the legislation. We have restructured ourselves to address the concerns of Members of Congress on religious persecution and religious freedom. But I can't tell you where we are.

Mr. Wolf. Can you get--the President claimed credit for it and said how wonderful it was and announced that Bob Seiple had been hired to be there and then has put no money in the budget. It is sort of big hat, no cattle. You can't talk about something, one, oppose it, then take credit for it and now not put the money in.

Could you get back and have somebody from the Department get back to me. We write letters, then I get letters from Barbara Larkin and different people, but never from the people I write to on this issue. So somebody get back and tell us when you will put the money in and come up and support it. Do you support it in the supplemental, because Christians are being persecuted today in China, Catholic priests are in jail, in Sudan we see what is going on. It should be part of the supplemental.

So we want to get a letter from the Secretary saying, we want this in the supplemental. If you could do that, I would appreciate it.

Mr. Romero. Okay.

Mr. Wolf. Thank you very much.

Mr. Callahan. Thank you.

Mr. Jackson.

nicaragua and honduras debt

Mr. Jackson. Thank you, Mr. Chairman. Let me thank you also, gentlemen, for your testimony. A number of countries have

canceled their outstanding debts with Nicaragua and Honduras because these countries' economies have been devastated and their ability to pay is even less than before. In addition to granting a 3-year moratorium on debt service payments for Nicaragua and Honduras, the administration is requesting 16 million in order to increase from 50 percent to 67 percent the amount of bilateral debt cancellation for Honduras.

The U.S. has also announced, in accordance with the Paris Club Accords, that we are prepared to provide a 90 percent reduction of Nicaragua's bilateral debt. This is laudable. Yet according to Oxfam America, it would take approximately 25 million to cancel the remaining debt owed to the U.S. by these countries.

Religious and nongovernmental organizations have argued that cancelation of the remaining debt will not only free up resources for development, but would enable the U.S. to encourage similar action by creditors with far larger outstanding debts.

Can you give us an explanation why the administration has not requested the additional funds to fully cancel the debt Honduras and Nicaragua owed to the U.S. and whether or not you see this as a worthy goal?

Mr. Atwood. Mr. Jackson, we try on debt-related questions to work with the international community to which that debt is owed. I personally sympathize with the thrust of your question. We have, however, gained agreement within the international community to put in effect a program called the Highly Indebted Poor Countries initiative, wherein we would be able to forgive a great deal of debt in exchange for countries reforming their economies.

We believe that a great deal of progress has been made in Nicaragua and Honduras and we, therefore, support review of their eligibility for this Highly Indebted Poor Countries initiative. But we try to do things in a coordinated fashion so we are not out there alone forgiving debt.

We have tried to convince the international community to do as much as possible to reward economic reform, and that is our position. It is reflected in the requests that you have before you as well.

ACCOUNTABILITY

Mr. Jackson. I have just another question, Mr. Chairman. On the issue of accountability, many people in the region are concerned that international assistance will either be misused for personal gain or the certain affected areas will not receive aid because they were affiliated with opposition parties.

I wonder how these problems have been dealt with since the emergency and what mechanisms are in place or will USAID ensure that U.S. assistance is used in a transparent manner that reaches the populations in need regardless of their political alliances? Would you consider the information or the formation of a special multilateral commission including recipient and donor governments and members of national and international civil society groups that would monitor the distribution of resources and implementation of these reconstruction plans?

Mr. Atwood. I would obviously have to study such a proposal. We would not like to see a lot of these resources deflected, but we agree with you, that the aid should not be politicized at all. And we have proposed to not only work with the comptroller generals of these countries, but with other nongovernmental organizations. In the case of Nicaragua, the President of Nicaragua, recognizing that there had been politicization of reconstruction aid in the past, has asked the Catholic Church to play a major role, and we will work with them as well.

We also plan to put some resources into programs to create Inspectors General in these countries so that they can audit the resources that are going in. It is a serious problem and the worst thing that could happen would be for any of this aid to be diverted from the people who need it the most. I think the governments recognize that. But we are going to take extra steps to make sure that we can audit and monitor all of the aid that is going on.

small farmers

Mr. Jackson. I have one final question, Mr. Chairman, I understand we have another round. But Hurricane Mitch disproportionately affected the most impoverished sectors of Central America and within that disproportionately affected small farmers. I am interested in what plans are in place to prioritize rural development and increase small farmers' access to land and to credit in light of the unfortunate events that have occurred there?

Mr. Atwood. It's an absolutely crucial part of this. These are agricultural countries. Rural development is a crucial part of our proposal. We are going to create the capacity for providing for 70,000 microenterprise loans. A lot of that will go to agricultural people who need the resources to start their crops to begin, Mr. Jackson.

Mr. Jackson. Thank you. Thank you, Mr. Chairman.

Mr. Callahan. Mr. Packard.

army corps of engineers

Mr. Packard. Thank you, Mr. Chairman. Let me ask a specific question, and then I will get into some general things that I would really like to have your response to. It is my understanding that AID has designated the Army Corps of Engineers to assist the Central American countries. What will be the role of the Corps in that calling?

Mr. Atwood. They will continue to play a crucial advisory role in helping us assess the proposals that are made for infrastructure repair in the region, Mr. Packard.

Mr. Packard. Are there private sector companies that are also sought for that kind of role?

Mr. Atwood. Yes, right.

Mr. Packard. How will the Corps interface with the private sector or are we asking government agencies to preclude the ability for private sector companies to be involved?

Mr. Atwood. No. In fact, while we are asking for special authorities to move more quickly, what we have tried to do and

what the Corps has helped us to do is to prequalify contractors that can work with us, people that have already done this type of work. We can move a lot more quickly if we do it that way. But we very much want not only to engage private contractors in this work, but also to receive their donations of free time and in-kind contributions to do this work as well.

Mr. Packard. We hope that government doesn't look for ways to take what normally would be a private sector role.

Mr. Atwood. In fact, we have $3 million in this request so that we can further exploit the private sector in terms of their willingness to give donations but also to participate with us generally in our projects and contracts.

loans

Mr. Packard. Do you have any idea, Mr. Atwood, what the total amount of the package, $956 million, I believe is the total package, close to a billion dollars, how much of that are loans, or categorized as loans, any of it?

Mr. Atwood. No, all of the reconstruction assistance within it is grant assistance.

Mr. Packard. Grant assistance.

Mr. Atwood. That is right.

Mr. Packard. None of that amount is planned for loans. How have the loans of the past, some of those which you wish to forgive, how have they been scored? Are they scored at the time the loans are made? How are they scored in reference to when they are made and when they are forgiven?

Mr. Atwood. Well, this is a question that relates to the appropriations that we are asking for to provide for the debt relief. They are scored now as a result of the best assessment by the Treasury Department of what the repayment likelihood is. And we have a representative here if you would like to know more about the details. But for the most part, they are based on the economic situation of the country at the time when we want to provide the debt relief.

They are scored on the basis of what the appropriations impact would be to forgive a certain level of debt. That is what the chairman and I were talking about when he said $19 million to forgive $75 million of debt. That is our current calculation. Obviously, you have access to CBO's calculations as well. That is OMB's calculation and Treasury working with them on the debt question.

Mr. Packard. How were they scored when the loans were made, say when the $75 million loan was made, how was that scored at the time it was made? Is it scored against that particular year's budget?

Mr. Atwood. It was indeed at that time, yes.

Mr. Packard. And is there any portion of that amount that is scored again when it is forgiven, except the $19 million of additional cost apparently used to process the forgiveness?

Mr. Atwood. To offset the forgiveness, that is right.

corruption

Mr. Packard. I am not thoroughly clear on just how it is done. But I will review it further with my own staff. The last

item I would like to bring up, Mr. Chairman, is the corruption issue, and that has been an issue that I have been concerned about, not just in Central America, but around the world.

You have significant funds in this proposal for corruption and crime activities and programs and training and the educational programs--it is anti-corruption activities. How much--has anyone ever done any estimates of how much of our aid packages over the past have been sucked up into corruption activities?

Mr. Atwood. This is going to sound like a self-serving answer, but I think we do a better job because we have GAO and we have our own Inspectors General and the like following our money. The problem we have had in the past working in countries like Zaire is that they take our money, they spend it on what we want them to spend it for, health or education or whatever, and then it is fungible. And so what they then do is to take the receipts they got, for example, from the copper mines in Zaire, send that to the Swiss bank account of Mr. Mobutu.

So if you are working in a country that has that kind of a cancer of corruption, while we can track our money pretty well, the fact of the matter is, you are not helping development, because the policies and the rule of law are not established and there is so much corruption that there is cynicism and an absence of development. That has been the problem.

Mr. Packard. So, as we carefully monitored our particular aid money and actually can make fairly decent accountability, it does not prevent the corruption from taking place--from a more complex point of view?

Mr. Atwood. That is right. And especially since the end of the Cold War, we try not to work with corrupt governments, and where there is corruption--and there always is some degree of corruption--we are trying to help strengthen institutions like the $400,000 agreement with the Comptroller General in Honduras to enable them to contract with an international accounting firm to enhance oversight and working to try to create Inspectors General and the like in these governments.

Mr. Packard. You may be aware that 2 years ago this committee fenced a portion of the money with the aid that went to Russia and to the Ukraine----

Mr. Atwood. Yes.

Mr. Packard [continuing]. Until they certified by our Secretary of State that there was progress made in corruption and anti-corruption activities. I am aware that this is humanitarian--much more of a humanitarian effort. What kind of a problem would it create if we required from these Central American countries that progress be made on corruption before they would get all of the funds? Would that create serious problems?

Mr. Atwood. Well, I have personally talked to each of the presidents in the four countries in Central America about this problem. They are fully aware that their future is going to depend on whether or not these funds are spent well and for the people. They have created comptroller generals offices. We are doing everything we can now to strengthen those capacities of those countries.

I think the higher priority right now is making sure that the people of those countries have enough hope to stay home and

work to reconstruct their countries. If we don't move fast on this, we are going to see a lot of them going to other places. I have heard of one story about several people, 40 young men from one village going across the border to Costa Rica because they were looking for work. Obviously a lot of them may be heading to this country.

We have got an urgent problem we need to address. I do think that we are taking all of the steps necessary. I would think that what you are proposing would be something we might consider for the fiscal year 2000 regular appropriation. I hope we can move as quickly as possible with this emergency supplement.

Mr. Packard. Our heart does go out to the people. It is the leaders that participate in corruption activities that siphon away these monies in many instances.

Mr. Atwood. That is right.

Mr. Packard. And, I would hope that your agencies would look for ways, appropriate ways, to put the pressure on the leaders, those that actually participate in the corrupt activities and thereby not allow these funds in total to filter through to where the need is the greatest.

I will not let up on the corruption issue because I think it is such a widespread matter and for the American taxpayers to end up supporting corrupt activities in any country through our aid programs I think is an absolute tragedy. But hopefully you will be consistently aware of it. Thank you very much.

Mr. Atwood. It is a cancer that affects development, negative development----

Mr. Callahan. With his remark, it is my understanding Congressman Packard that only $30 million of these monies can be considered for cash grants anyway; is that correct?

Mr. Atwood. That is right.

Mr. Callahan. So only $30 million of this package can be utilized for cash grants to governments, which we want to protect the 30 million also. But there is a check and balance there, because the 30 million cannot be spent unless Brian Atwood signs a check, even by the Honduran government. And I see Mark Snider back there and----

Mr. Atwood. That is right.

Mr. Callahan [continuing]. We can't reform all of Central America in this package, but their judicial system leaves a lot to be desired, especially in Honduras. And they are very fortunate, incidentally, that Mr. Valle is out of jail down there or they would be having some problems with me. So it is very fortunate that--the fact the hurricane blew the jail down, maybe that had something to do with it.

Ms. Kilpatrick.

Ms. Kilpatrick. Thank you, Mr. Chairman. I first want to associate my remarks with your comments earlier in terms of detail. I asked my staff to give me detail or ask for it and there is none. It is quite a large sum of money here, even the 30 million that you just mentioned, that is a lot of money. And there is very little detail and I hope we get more of that as we move through this process.

I too am concerned, as Mr. Packard is, about the corruption. It bothers me that after an hour and a half talking about Central America that Mr. Atwood would go to Zaire and

talk about its corruption, and it is corrupt with Mobutu and others and they are trying to correct that themselves. But we have major corruption in the countries where we are dealing this morning. Colombia, a major drug trafficker.

I served on Banking last session and heard horrendous testimony from Colombian citizens, themselves in this country under protection. It bothers me that they are going to get 10 million of our U.S. dollars, as devastated as the country is and as terrible as the tragedy was. They flood our streets of America with drugs, some 650 tons in 1996,Colombia, Mexico, Peru, Bolivia and a couple other countries. That we are now turning around and giving them our U.S. tax dollars when in fact they have money in their own coffers, much of it from the U.S. illegally, bothers me.

Corruption, as Mr. Packard spoke of, bothers me. The natural devastation that these countries faced in Central America was a tragedy, and as you mentioned, there were approximately 9,000 lives lost and people missing. It is quite a tragedy.

Mr. Packard. Would the gentle lady yield for just a moment----

Ms. Kilpatrick. Certainly I will.

cash basis

Mr. Packard [continuing]. As a follow-up. Do we deal with these projects, these assistance programs and projects in any country on a cash basis? Do we just give them the money and/or do we pay for the work after it is done?

Mr. Atwood. Over 70 percent of all the work that we do at USAID is done through American contractors and nongovernmental organizations. So, no, we are doing this work with our contractors for the most part.

Mr. Packard. Are they reliable? Does corruption stem from our own contractors?

Mr. Atwood. We have got some ways to get at them if they are not reliable.

Mr. Packard. Thank you. Thank you, ma'am, for yielding.

Ms. Kilpatrick. You are welcome. Reclaiming my time, quite certainly I know that is elementary. I know that we deal with general contractors and others who are certified and citizens and all of that. That wasn't where I was going. I was going with the 3, 4 steps removed where that sometimes is turned around and gets into illegal market. But notwithstanding the 10 million, the direct appropriation, which is a small amount in the total package that we are dealing with this morning, I am confident, Mr. Atwood, that your staff as well as the Secretary will see that these U.S. dollars are put to good use and rebuilding does actually go on. I just want to register my concern about what I see happening from Central American countries and others as it relates to our own U.S. economy.

I want to talk just a little bit about the women. One-third of the households in the countries are headed by women, some of them in business with microloans and I am happy to hear that OPIC is going to be stimulating the economy and doing more of that.

What exactly can you tell me that you have done that would address the needs of the women who many are heads of households raising children, who many times their businesses are on the back end of the farming process or planting season. They actually market after the crops are grown, I might add.

What kind of special steps are being taken to address some of the problems that women in those countries are facing this tragedy occurred?

Mr. Atwood. I agree with your analysis exactly. It is important that we are able to help, in particular, the women who are head of households. But they also are the backbone of these countries. The microenterprise loan program will provide some 70,000 loans. That is in this request. About 80 percent of those loans will be going to women. This will help people start up small businesses again.

So we know that the women are playing a central role as community leaders. I have seen it with my own eyes as relief workers, as head of small and micro businesses and often obviously as the heads of families. We recognize that leadership role and want to see it continue in this reconstruction process. So it is very, very important. 80 to 90 percent of our microenterprise loans will go to women.

Mr. Romero. Let me also add, if I might----

Ms. Kilpatrick. Yes, please.

Mr. Romero [continuing]. The CBI enhancements, when that comes out, will directly benefit women, because you find that most of the employees in textile industries down in Central America are women and it does help.

Ms. Kilpatrick. I was going to lead right into the CBI initiative that you mentioned without being specific about it. Are you able to share with us this morning some additional CBI initiatives that we will see come forward?

Mr. Romero. I wish I could. Unfortunately, we are still engaged in looking at all the ramifications, including budget ramifications. I am just not in a position to be able to give you much more than that.

Ms. Kilpatrick. How soon might we see some?

Mr. Romero. I am told shortly, I am hoping within the next week.

Ms. Kilpatrick. In government that is anywhere from 5 years to 10.

Mr. Romero. We are talking a matter of days and weeks perhaps.

Ms. Kilpatrick. Thank you. And then, finally, we mentioned Honduras, Nicaragua, Guatemala, El Salvador, the Dominican Republic and other Caribbean countries. What countries other than Haiti is in that Caribbean loop that would be considered for the assistance?

Mr. Atwood. Haiti for sure and some of the eastern Caribbean nations. Do you have the list of those? I better not guess.

Ms. Kilpatrick. If he can find that.

Mr. Atwood. Saint Kitts and Nevis would be one.

Ms. Kilpatrick. Saint Kitts.

separate account

Ms. Kilpatrick. Finally, Mr. Chairman, as I was reading much of this last evening you mentioned about the appropriation that would go into one account and then money would be drawn down from it as needed. Tell us how would that operate. How does that accounting work? I like Mr. Young's suggestion about the separate account, and I heard you say you are going to look into that. I understand it has been done in the past. How does the money flow once it is appropriated?

Mr. Atwood. This is the $30 million balance of payments support for Honduras. It would be placed in a bank account, and we would obviously be able to monitor the fact that it would only be used for payment against their debt with the international financial institutions. At the same time, they would agree to create an equal amount of local currency, $30 million worth of local currency, which is quite a bit to do reconstruction projects in Honduras.

Ms. Kilpatrick. That is on the 30 million that you mentioned. But of the 620-some million, a portion of it comes back to our Federal agencies, I understand that.

Mr. Atwood. Yes.

Ms. Kilpatrick. What is left, is it also put in an account as you mentioned?

Mr. Atwood. No, the bulk of it would be managed by USAID. We will do competitions for projects, infrastructure projects, health, education or whatever. American NGOs will participate in this as well. We would manage theresources. If another government agency had a capacity that we didn't have to do this work, for example, HUD, to do some work in the housing area, we would transfer money to them under the provision of section 632 of the Foreign Assistance Act.

Ms. Kilpatrick. I was thinking more of replenishing DOD, for example, who are already saying they didn't get enough.

Mr. Atwood. There are resources that are being requested to replenish what DOD has expended under other accounts to help us in this crisis.

Ms. Kilpatrick. DOD means the money we have appropriated or in this supplemental being appropriated to them is not enough they have spent more, but this is what we are asking for them; is that right?

Mr. Atwood. They have drawn down on other accounts that weren't initially appropriated for the specific purpose of helping in an emergency in Central America, and we are asking for resources to replenish those accounts.

Ms. Kilpatrick. Thank you. Thank you, Mr. Chairman.

Mr. Callahan. Thank you.

Mr. Knollenberg. Thank you, Mr. Chairman.

Thank you, Mr. Atwood, and, Mr. Romero, for your testimony this morning. By the way let me just compliment the comments you made, Mr. Romero, regarding the administration's dedication to the enhanced CBI legislation.

microenterprise loans

You mentioned CBI's impact on Women. I think that is significant. I also think that it can be beneficial for

American workers and businesses as it opens up those new markets for American goods. I am glad to hear that.

Let me direct my attention to the comments on the microcredit issue. I know, Mr. Atwood, in your testimony, you mentioned that there are some 70,000 microenterprise loans in your request. Half of all Microcredit money should be directed, as we indicated in the omnibus appropriations bill, to the poorest, particularly to women, and with loans under $300.

When I look at the numbers in your statement, am I to presume that 70,000 microenterprise loans, if we average them out at around $300 a piece, and when I start doing the math on that, it looks like if it were as much as $300 per loan, it would still be about 21 million total.

There is 283 million dedicated to roads, to infrastructure, to building the bricks and mortars, et cetera. And obviously, my understanding is that the economy down there has been devastated and that women, which has already been mentioned, suffer greatly, with over one-third of them as the head of the household. It seems to me that some attention ought to be riveted on getting the money into their hands.

What can you tell me about rebuilding the marketplace? You have mentioned the bricks and mortar in depth, but I think you touched just briefly on the marketplace side of it. That must be rebuilt as well to bring it back to what it was and, as you want to do, build it and make it even better.

Could you give us just a little breakdown of how much of that money will end up in the hands of those who nee it such as the women that traditionally have gotten loans of under $300 in the Microcredit program, what amount of money will really be dedicated to them?

Mr. Atwood. Mr. Knollenberg, I will be very happy to provide for the written record a lot more detail, but let me just comment briefly on your question. A lot of small businesses were damaged or ruined and a lot of people are going around to banks in Honduras and Nicaragua and elsewhere that are experiencing major liquidity problems and would have even if this disaster hadn't occurred.

So we are basically going to be working through those banks to try to help provide credit to these small businesses. That is one aspect of it. The other are the basically microbusinesses that where most of the women are participating in these businesses.

They obviously need to get back on their feet and have credit so that they can begin their lives again. But the infrastructure is equally important, because they can't get their products to market in the agriculture sectors unless they can repair the bridges and the roads to get them to the ports. So all of this works together.

Now, we are not doing this alone. We are trying to take advantage of our comparative advantage. We do microenterprise lending programs better than any other country, in my belief. There are a lot of others that are going to be participating. And we have already put $5 million in the microenterprise and encouraged the IDB to put up $12 million for a total of $17 million so we could start this already. This is in addition to what we have already started.

Mr. Knollenberg. Mr. Atwood, can you tell me, or provide

for me in writing, how much of this money is going to be dedicated to the women? If we are talking about $70 million microenterprise loans, what number does that come to when you factor in the dollar amounts of those loans?

Mr. Atwood. I will have to give you that for the record, Mr. Knollenberg.

[The information follows:]

Microenterprise Funding for Women

In all geographic regions of the world, women have comprised more than fifty percent of the clients receiving financial services from microfinance institutions. In Latin America two thirds of the clients receiving microfinance credit have been women; in individual microfinance institutions in Central America this percentage is often much higher. Moreover, women have traditionally comprised the majority of the people living under very poor conditions, who due to the precarious situation they were living under suffered the most loss due to Hurricane Mitch. Therefore, we anticipate that a similar proportion of the microentreprenuers receiving loans under $300 will be women.

Mr. Knollenberg. I think it is important that we continue to stress that this money must go to women, through the microcredit program, which I think has been very effective. You certainly must dedicate resources to rebuild the bridges and the roads and the infrastructure. But you also have to literally rebuild the marketplace.

Mr. Atwood. Absolutely.

Mr. Knollenberg. And that is done by helping the people, and particularly the women. I would expect then to hear from you as to how much money will be targeted to that particular program.

Mr. Atwood. Absolutely, Mr. Knollenberg.

Mr. Romero. If I might just add, I have been chief administrator in El Salvador and I have seen how microenterprise in village banking works at the microlevel to really turn around the countryside and engage towns and rural development that just didn't exist before. But one of the target groups that probably is most at risk with respect to the likelihood of illegal immigration to the United States are young males and infrastructure projects that Brian was talking about beyond the ability to be able to move about to get emergency health care, to do the normal kinds of things that you need to do with respect to transportation, and the transportation network does provide income for that most at-risk target group.

Mr. Knollenberg. Thank you. Mr. Chairman, thank you.

debt

Mr. Callahan. Thank you, Mr. Knollenberg. I am still having difficulty with this $30 million. I know when we are talking in terms of almost a billion dollars, it doesn't sound like much. I just wonder, Brian, do you know or, Mr. Romero, any precedent to this? Do you ever recall any type of precedent whereby we have given this authority to anyone to pay debt owed by other countries to multilateral development banks or to the World

Bank or to the IDB--has this ever been done, to your knowledge, in the past or are we establishing a precedent?

Mr. Atwood. We did this right after the peace agreement was signed with Guatemala. They had some very serious fiscal problems. They satisfied serious commitments to use their own tax revenues in future years for paying to implement the peace accords. We managed to protect the money so that it was spent for what we intended it to be spent for. And it was a successful example, I think.

Mr. Callahan. There is just something about it that doesn't pass the smell test. You know, I understand where you are coming from and I understand what your mission is. But we just forgave about 50 percent of Nicaragua's debt, I think a few months before the storm. So we are--we are forgiving debt. Is there going to be any moratorium placed upon the government to stop them from borrowing more money?

I mean are they going to take a new financial statement to these same banks and say, now, our financial situation is so improved that we don't owe any money, will you give us some more money. Is there any moratorium placed on these governments to stop them from falling right back into the same economic situation?

eligibility

Mr. Atwood. The Heavily Indebted Poorer Countries initiative issue that I raised before, neither of these countries has yet been declared eligible, though we strongly support them in their quest for eligibility and believe that there will be action taken soon on that question. That would get them into a situation where they have to, continue to show over the years that they are reforming their economies and making them more transparent and accountable so they wouldn't fall once again back into debt. That is crucial.

I mean there is an emotional tug with a lot of people, including myself, that says why should these new democratic governments have to suffer through paying off the debt that the Sandinistas incurred, for example. And we all feel that. On the other hand, the international community has to have standards about these things. And we don't want to just forgive debt and then 10 years later have a big debt burden once again that has to be forgiven. So we are conditioning it on the basis of economic reform.

nicaragua

Mr. Callahan. Well, our limited research into this matter, you know, this just came up with respect to this new request. But with respect to Nicaragua, it was the Sandinistas who borrowed this money, they cannot account for what they did with the money, they borrowed the money and it went to something, we don't know what, nor does the current government of Nicaragua know where it went.

So we have to assume that there had to be some corruption involved there. So they took the money and they left or they put it in another bank. Now, we are going to come along and we are going to forgive this debt. And I know I am oversimplifying

this, but we are going to forgive them their debt, give them a balance sheet that now says they are a solvent country, which permits them to go back and borrow more money.

We are not giving them direct grants, but by paying off their debt, we are giving them the ability to go and borrow more money for which they would not have to be accountable to anybody but the people of their own country. They have not paid much attention to that type of accountability in previous years.

I just want to tell you that the $30 million is still very much in question, that I am not totally sold on that. I know where you are coming from, and I certainly appreciate your motives. But I am just concerned about this precedent that we are beginning to establish by creating an ability of a nation that we are getting out of debt to go right back into debt.

The assistance for Central America, Brian, we have talked about this and talked about this, we have harped on it, but put restrictions on you, we said you couldn't spend more than a certain percentage of your money in Haiti. I understand some of this money is going to Haiti, I hope there is an explanation of that in your explanation of the request.

But I noticed for the fiscal year 2000, a reduction of $12 million had been requested for Central America. And are we saying that this money that is going to be spent, which is going to be spent in the next 18 months, and I think it should, but why would the administration come along and say that this is all of the money we are ever going to need in Central America?

Why wouldn't you recognize that if we are going to rebuild this area of the world, if we are going to build new roads, build the new schools, build the new homes, provide medical facilities, that we are not going to provide future assistance to help this country? Is it all of their woes are going to be over with in 18 months? Especially if you are going to South America, why is there a $12 million reduction in the assistance to Central America if, indeed, we have finally recognized how important this area of the world is.

Mr. Atwood. Mr. Chairman, we would hope that we can disburse all of this money prior to the end of the fiscal 2000. That will be an awful lot of activity in this region. Then we would hope that we could continue the regular projects and programs that we have in place in the countries.

Mr. Callahan. There was a reduction in the requests for the regular programs. That is my point, Brian.

Mr. Atwood. I can't give you the details about Central America. But the overall request for Latin America is larger than it was in fiscal 1999. You did assure that there were more monies available for Latin America.

Mr. Callahan. I can assure that there is going to be more----

Mr. Atwood. It depends on what you are comparing it to.

Mr. Callahan [continuing]. There will be more money.

Mr. Atwood. Maybe perhaps you could consider Brazil as well, Mr. Chairman.

Mr. Callahan. Yes, I understand that. I would have to go down there and look the place over before I give them any more. If you had an embassy down there as nice as the one in

Argentina, I might spend a lot of time down there.

Mr. Atwood. There is not such an embassy.

Ms. Pelosi. Maybe it is finished.

Segregation of funds

Mr. Callahan. Chairman Young expressed an interest in sort of segregating this fund, and while I have not put a lot of thought into it I like the idea. And I wish you would look at the possibility of that, of segregating these funds, because we want to make certain that the monies we appropriated last year for Central America were spent out of your regular appropriation.

We want to make sure all of this money, and I certainly know that is your intent and the administration's intent, to spend it all out of this and there will be no reprogramming. And the more I think about the segregating of this account, the more I like it, and the more it will help the administration if we ever have to face this again, because it will prove that we took the entire money and we spent it for these good causes.

So I know time is limited there, but I think we ought to look very closely at the segregation of this fund.

Mr. Atwood. Mr. Chairman, it is our intent to have it segregated and if you can devise a way that would give you more reassurance, I think people downtown would be very sympathetic, but we would like to see what you want.

Mr. Callahan. We do not want to make it cumbersome upon you all that this money has to be deposited in this bank and the check. We want to cooperate with you, but at the same time I think it would be great if we had total accountability of how this disaster money was being spent. It could be, Brian--and I doubt seriously--that maybe we have overestimated, maybe you have overestimated the needs and there could be a surplus. I am sure we could find ways to spend it.

But I think it would be a good idea if you could give us some suggestions as to how we could put this into a disaster account and still give USAID total control. We are not trying to take any of that away from you, but just for accountability, bookkeeping reasons it will show.

Notwithstanding Clause

Finally, let me on this request for the notwithstanding clause on the contract. I know where you are coming from there, and I know the need to expedite these contracts. But this waiver, I just wonder if we went along, would you object to a reporting requirement on the use of this authority? We need to keep track of this. And if you are not even going to be there probably through most of this contractual awarding, I think the Congress needs some indication of what you are doing.

We don't want to just give carte blanche authority to anyone that--I know that the President wouldn't submit someone who might not take the same concerns with government monies as you do, they are going to have a very difficult time finding someone as qualified as you. But still I think that the Congress should have some voice or notification of these contracts especially when you are going to waive these things.

So we need to look very closely at those two things along with the $30 million fund for debt restructuring or debt payment.

Mr. Atwood. Mr. Chairman, we have no problem with reporting on what we are doing. Our main purpose in getting the notwithstanding clause is so that we can identify prequalified contractors rather than going through the whole nine yards of competition, opening it up to everybody in the country. We know who the people are.

Mr. Callahan. I will let you know that we should give you that possibility.

Mr. Atwood. Yes.

Mr. Callahan. But at the same time, there should come accountability with that.

Mr. Atwood. Absolutely.

Mr. Callahan. We don't want one individual having the authority to waive all of these without some oversight, and I think the Congress should do the oversight.

Mr. Atwood. We would be happy to do that.

Ms. Pelosi. Thank you very much, Mr. Chairman. I have a number of questions so I am just going to sort of rattle them off quickly.

Mr. Callahan. You can have them all now.

Women in Development

Ms. Pelosi. Rattle them off quickly and submit some for the record. I want to return to my opening statement and commend my colleague for emphasizing, and Mr. Knollenberg, the issue of women in development and how important that emphasis is. The administration's proposal for humanitarian assistance for Hurricane Mitch, Hurricane Georges and the earthquake in Colombia is commendable, and I think in order for us to sell it to our colleagues it might be helpful if you could provide for the committee a list for the record of anticipated transfers of the 621 million requested for disaster relief actually in the full package. Because if we are not going to mark up in subcommittee, we will be addressing this as members of the full committee, so that would be from Commerce-Justice-State as well or any other----

Mr. Atwood. Anticipated transfers of resources to other government agencies?

Ms. Pelosi. Right. In other words, so when we are talking to our colleagues we know how much money is going to Latin America, in terms of how much of the assistance has already been provided or will be provided by Federal agencies. So what is at risk, because we all sharethe concern about corruption.

And may I also say that I am pleased that Mr. Packard mentioned that corruption is not only an issue in Central America, and you pointed out, someone pointed out Zaire, but it is a worldwide deterrent to economic growth. We all share that concern, but in any event, so that members can see what money is at risk and what is really money that is being spent by the Federal government.

As far as the CBI is concerned, Secretary Romero, you keep referring to it and what additional assistance it could provide in terms of economic growth, and I would just say to the administration you have a long way to go to get a majority of

votes for CBI in the Congress. We put it up under suspension which was almost pathetic, ludicrous, because the groundwork was not laid for the CBI. I don't know whether they thought it would just slide by. But we do watch our votes.

And I did happen to vote for it. So I am not saying this as one who opposed it, reluctantly, but nonetheless I think that that initiative needs work, and when it is ready, I will be very eager to see if the improvements are made that many of us had hoped would be there, but just tried to give you the chance to move forward with it in the past. To discuss that as part of this package when it isn't in reality enjoying a majority of support in the Congress yet I think you should take heed of.

Notwithstanding your response, Mr. Atwood, to Mr. Jackson's question about the $25 million, I have suggested to the chairman earlier this morning, before we met in this public hearing, that I was contemplating an amendment to the bill for the $25 million and I hope that the administration would be receptive to that and not oppose that in terms of additional debt relief. I just want to give you heads up on that.

Colombia

Regarding the $10 million for Colombia. Now, this is a question. There has been $10 million requested for earthquake assistance for Colombia. It is my understanding that there is little or no AID presence in that affected area and the needs there are vast. Our committee staff visited recently. Most of the housing and much of the infrastructure were destroyed and several towns also in the area have suffered a period of lawlessness in the immediate period after the quake.

Given these challenges how do you intend to spend the $10 million? And you can just give me a brief answer now and submit the rest for the record if you would like. Does that include a housing guarantee program to address the acute housing needs?

Mr. Atwood. The $5 million--I am sorry, that is the regular program for Colombia. Let me see if I can answer.

Mr. Romero. Let me, if I might, the earthquake hit an area that was probably one of the few tranquil areas left in Colombia where there was real economic activity going on with respect to coffee cultivation. And the President expressed his real concern to me that unless something was done that lawlessness----

Ms. Pelosi. We are talking about President Pastrana.

Mr. Romero. The President of Colombia, Pastrana.

Unless something was done immediately to provide temporary housing and also medical care, that the situation could get out of hand. You saw on CNN the result of immediately afterward the looting and that sort of thing, the lawlessness. He is very concerned trying to keep this within the fabric of those areas of the country that are still peaceful.

Ms. Pelosi. I share the frustration of my colleague about the experience with Colombia, but I am hopeful that President Pastrana's new administration is taking a different course of action.

Mr. Atwood. Ms. Pelosi, I have the answer, and it is very brief. The $10 million in the supplemental will be used for the reconstruction of homes for the poorest groups affected, 1,150

houses to be built and then, second, the reconstruction of six schools and eight health posts in this Armenia region.

El Salvador

Ms. Pelosi. Very quickly in terms of El Salvador, in a forum on December 15th hosted by AID, which brought together the private sector to talk about Mitch reconstruction, the President of IDB said this reconstruction represents an opportunity to reduce the dependence on agriculture and shift to the maquila. Do you share this view for the long-term development for the region? What steps can be taken to increase food security in Central America and strengthen local production of basic grains? As you all know, I have a large El Salvadoran-American population in my area. I had the privilege of traveling with the administrator to El Salvador at the time of the elections at the end of Cristiani's term, and Mark Schneider and I visited a sister city relationship as we were observing the elections. And since it came up in the course of Hurricane Mitch, that forum, I thought maybe it would be appropriate to ask that question today.

Jobs

Mr. Atwood. I will answer and perhaps Ambassador Romero, who has been ambassador to that country, would also want to respond. But I think right now this emergency supplemental is to deal with the devastation and the loss of jobs and crops. These are highly agricultural countries. And we need to deal with that reality today. But leaving the word maquila out of this because it has other implications. I do think that these countries need to take the path that Costa Rica has taken, which is to develop industries and exports that find a real place for high-paying jobs in the global economy.

We are talking about software and technological links and things and the like. As long as they abide by the WTO requirements on intellectual property rights, we think that is the right way to go developmentally. They will always have an agriculture sector but it perhaps should not be as dominant as it is today. I don't know if you agree with that.

Mr. Romero. I agree. I think the key to Salvadoran development is diversification, and it was something that was begun before the civil conflict broke out in the late '70s to which the country is moving back towards now, and I think it holds the key.

Bishop Gerardi

Ms. Pelosi. That is very interesting, I appreciate it. As I mentioned, again referring to my opening statement, I was hoping that the President will bring up the investigation of the murder of Bishop Gerardi. It remains stalled, as you know, with serious questions about the handling of the investigation.

Do you know, Secretary Romero, how the President intends to signal U.S. recognition of the importance of resolving this case?

Mr. Romero. The President has expressed his view onseveral

occasions that justice be done in the case of Bishop Gerardi. Certainly we have aided or supported the investigation by the dispatching of FBI agents down to Guatemala and the assistance that we gave with respect to crime scene investigation and laboratory work and that sort of thing done by the FBI. And, unfortunately, it seems that the government of Guatemala several months later is no further along regarding who might have done this and what the motive might have been, but we will continue to press.

Guatemala

Ms. Pelosi. Well, I visited Guatemala, separate from my trip with the CODEL, but for this specific purpose, and that was what, 7, 8 months ago in July, and the administration's contribution to this investigation was the same as you just suggested now, the FBI and the crime scene information. But the information we have been asking for for 8 months from the FBI to assist in has been withheld. So I hope that there would be more cooperation on our part to help them solve that crime.

Many of us as Members of Congress have conveyed to President Arzu our serious concern about the message that this sends, that the chairman of the Guatemalan report on human rights abuses would be killed within 48 hours, of the release of that report and that this investigation would still be stalled all these many months later. So I would hope that the President would not miss the opportunity to do that.

I have one more question, Mr. Chairman.

Mr. Callahan. I will ask Ms. Kilpatrick if she has any more questions. We are running out of time.

Debt Relief

Ms. Kilpatrick. Just briefly, on debt relief I think the chairman spoke to that earlier, debt relief and what is before us relieves U.S. debt only; is that right? Yes, or no.

Mr. Atwood. I missed the question.

Mr. Romero. There is a plan to work with the Paris Club and to get debt reduction across the board at the Paris Club. Both countries need to pass the test, and for Nicaragua it would be this highly indebted country test which comes with a lot of strictures in terms of money that they can borrow and balancing the budget in the future, and people particularly in Washington watch very closely as to what they do.

So it is not a license to borrow more money freely. Honduras has to have an IMF agreement in order to qualify for Paris Club debt relief.

Ms. Kilpatrick. But my point is, we are not--or can we actually mandate that any other countries relieve their debt with those countries, is this a U.S.-only and Honduras, U.S.-only and Nicaragua, U.S.-only and the other countries; is that right? Is there anywhere in our structure where you may have cooperative agreements with other countries to relieve debt? Is there such a thing that exists?

Mr. Atwood. It doesn't exist that we would mandate. But there is a tremendous amount of cooperation on this issue. There was a December meeting hosted by the IDB with other countries. There will be a Stockholm meeting in May and there

will be a lot of pressure, just peer pressure, to forgive debt.

Ms. Kilpatrick. Peer pressure to relieve the debt----

Mr. Atwood. Bilateral debt.

Ms. Kilpatrick. From the U.S.

Mr. Atwood. Yes, absolutely, we are pushing for these countries to be eligible for the HIPC, the highly indebted.

Ms. Kilpatrick. Yes. Highly indebted. Finally since it is on the fast track, once the legislation is to the President's desk for signature, how soon after that will it be in the Central American countries? How soon will they have access to it?

Mr. Atwood. Well, we have already put in place a number of the mechanisms we need to get started. So we plan to move right away. It depends on what aspect of this program. There are some aspects we can move even more quickly than others. But still we are planning to have this activity started within days after the President signs this.

Ms. Kilpatrick. I understand on Saint Kitts the only hospital has been leveled and I was happy to hear you say that Saint Kitts is one of the Caribbean countries that you are looking at. Thank you very much. Thank you, Mr. Chairman.

Mr. Callahan. Ms. Pelosi.

Ms. Pelosi. Mr. Packard.

Mr. Packard. I had to come back. I had an 11:30 appointment and it was canceled. I wanted to come back and ask one more question. I didn't want to let them off the hook totally. Does the money flow that we send to the individual families that have had their homes destroyed and the properties, and businesses destroyed? Is that the intent?

Microenterprise Credits

Mr. Atwood. It depends on the aspect of the program you are talking about. If it is the microenterprise credits that we provide, it goes directly. We set up an institution, whether it is a bank or a village banking system, and we provide the loan and then we help them to implement a business plan and the like and create a network.

Mr. Packard. Is the money loaned to the victims or is it a grant to the victims?

Mr. Atwood. Again, it depends.

Mr. Packard. Ultimately it goes through the process from our place to the local distribution of the money.

Mr. Atwood. We are talking about in this supplemental reconstruction aid and, of course, we work directly, if it is a question of building a house, we work directly with the family to make sure that they understand what all of the implications are and the like.

Housing

Mr. Packard. I guess what I am getting at is are we using American taxpayer money to grant aid monies directly, that ultimately goes to rebuilding a person's home down there or a person's business that has been destroyed at no costs to that person? If that is what ultimately happens, then we treat foreign victims of disasters better than we treat American

victims of disaster.

Mr. Atwood. I see your point.

Mr. Packard. We do not do that here in America. FEMA may make low interest loans to an individual who is affected by an earthquake, flood or hurricane, but we do not give them the money. They don't get to build and rebuild their home at no cost at the taxpayers' expense.

Mr. Atwood. It is done the same way. There is, Mr. Wolf referred to the phrase ``sweat equity.'' Every one of the housing projects has a self-help aspect to it. So we are not just giving them the money and building the house for them. They have to participate in this and provide resources as well. We set up programs to make sure it is a self-help. We find frankly that is the only way that people will respect the property that they are given under these programs.

Mr. Packard. I would hope that that would be your benchmark in all of these kinds of programs, is that we do not treat foreigners, even though they are victims of tragedy, that we do not treat them better than we do our own citizens that are also victims of tragedy with taxpayer money.

Mr. Atwood. In fact, I think the people generally want to be treated with that kind of respect. The same way people here don't like to be on welfare necessarily. They want the self respect that comes from a self-help program.

Mr. Packard. Thank you. Thank you, Mr. Chairman.

Mr. Callahan. Mr. Secretary, Mr. Administrator, Mr. Future Ambassador, I thank you for your testimony this morning. Please get back to us as quickly as you can with these questions we posed to you, because we must move rapidly, and the quicker you get them back, the faster we will be able to move.

Mr. Atwood. Thank you, Mr. Chairman.

Mr. Callahan. Thank you.

[Questions and answers for the record follow:]

Submitted to Agency for International Development

Questions for the Record Submitted by Chairman Callahan

Question. According to USAID, the country-by-country breakdown includes $27 million for regional programs. What will these regional funds be used for? Will any of these funds be used for USAID operating expenses or salaries and overhead?

Answer. The in-country reconstruction effort for Central America will be complemented by regional initiatives which address common problems in public health, trade enhancement, disaster mitigation, cross-border environmental management, and private sector outreach. In addition, operating expenses for USAID management of Hurricane Mitch activities is included in the regional funding category.

The types of regional programs to be funded include the following:

Establishing standardized surveillance systems which will be crucial to effective management and control of disease outbreaks.

Assistance to small commercial producers which will have to consider alternative crops. USAID will assist commercial growers on a regional basis to explore alternative export markets and identify regulatory requirements and the best way of meeting them. Assistance will include technical assistance

on seasonality of demand, special shipping and handling, particular sanitary and phytosanitary requirements, etc.

Mitigation of a number of environmental and disaster issues that can only effectively be addressed on a regional basis. Examples includes the management of shared watersheds and reef systems, in which Central America has past experience. In fact, Central America has some of the strongest regional programs of any group of countries in the world. While a lion's share of funding for reconstruction will be provided by the multilateral development banks, these banks have limited grant funds available for the technical assistance required to develop programs. By programming funds for use at the regional level, USAID will ensure flexibility for increasing coordination among the banks and our programs, and for making bank programs and the reconstruction effort overall more successful. Regional funds will be managed at both the LAC Bureau in Washington, and by our regional mission, G-CAP, in the field.

The budget for regional programs is as follows:

	Millions
Public Health	$2.0
Economic Reactivation	9.6
Housing	1.7
Disaster Mitigation	5.0
U.S. Private Sector Outreach	3.0
Overhead Costs	\1\ 5.5
Total	26.8

\1\ Does not include $0.5 million for Hurricane Georges overhead costs.

Question. The President's request includes $3 million ``to reach out to the private sector in the United States * * *'' What is the purpose of this funding? To whom will these funds be provided? Will any of these funds be allocated for salaries and expenses of non-governmental organizations or for USAID operating expenses?

Answer. Given the outpouring of interest from the U.S. private sector to assist in the reconstruction of Central America, USAID is working to facilitate the targeting and channeling of donated goods and services from private donors, coordinate the delivery of donations, and help monitor their distribution in Central America.

USAID is currently working with a U.S. contractor to track the universe of donations and serve as a clearinghouse/facilitator among donors, USAID field missions, NGOs and needs in the field. The $3 million will be used to ship these donations from the U.S. to Central America. USAID has already received one unsolicited proposal from a U.S. NGO to undertake such an endeavor. Any grant provided to an NGO would be performance-based contract that would partially cover overhead costs, although no funds will be used for USAID operating expenses.

Question. The President's request would provide the USAID administrator a broad waiver of existing contracting authority. Further, the supplemental request includes $1 million to employ personal service contractors to manage the program. Please justify the need for this broad waiver authority. Please provide a list of laws that USAID anticipates waiving with this authority.

Answer. The Administration is requesting special authorities to expedite the procurement process in order to ensure that our assistance is provided as quickly as possible. Given the emergency nature of this supplemental, time is of the essence in helping the stricken areas. That is why the proposed supplemental establishes a September 30, 2000 limit for obligation of these.

Under the circumstances, we cannot afford to wait the normal 6 month period for full and open competition. By prequalifying eligible bidders of goods and services, we expect that assistance can be provided in some cases in less than half the normal time, saving between 6 weeks and 3 months, depending on the complexity of the procurement. The major time savings would result from not adhering to the wide range of advertising provisions in the Federal Acquisition Regulations and not evaluating large numbers of firms which could respond to our procurement bulletins. It is not contemplated that implementation of the reconstruction program will require, nor do the special authorities provide for, a waiver of the Buy-America Act.

The December 15 Call to Action Conference, hosted by USAID and the White House, included over 400 companies which gathered to discuss ways our government, the private sector, and American citizens can work together to assist generously with relief and reconstruction. Follow-up activities have served to identify the capabilities of these and other firms which have expressed interest in the reconstruction process. We intend to factor this information into the prequalification phase of the procurement process.

As has been suggested by the Subcommittee, USAID is perfectly willing to advise Congress whenever these special authorities are invoked to expedite the procurement process.

Question. Please describe previous occasions in which the Congress has provided USAID or the Department of State this type of waiver of existing contracting laws?

Answer. USAID's Office of Foreign Disaster Assistance (OFDA) and Transitions Initiatives (OTI) operate under broad notwithstanding language on a regular basis. These authorities are not limited to procurement procedures as is the case for the proposed emergency supplemental for hurricane reconstruction. In addition, in every other supplemental appropriation enacted for disaster relief, rehabilitation and reconstruction this broad notwithstanding authority has been included. In addition, the Agency has had special authorities under the SEED Act for implementation of its programs in Eastern Europe and the New Independent States.

Question. According to USAID, up to $30 million would be made available for balance of payments support to the Government of Honduras. These funds would be used by the Hondurans to pay bilateral and multilateral debt. How much does the government of Honduras owe to multilateral and bilateral creditors?

Please list to whom these debts are owed and in what amount.

Answer. As of the end of 1998, the Government of Honduras owed multilateral and bilateral official creditors a total of $3,518 million, distributed as follows:

Multilateral:	In million
IMF	$46
World Bank	774
IDB	990
Central American Bank for Economic Integration (CABEI)	409

Total	2,219

Bilateral:	
U.S. Government	154
Other Paris Club	920
Other bilateral	225
Total	1,299

Question. As requested in the supplemental, can any of the balance of payments support funds be used to pay debts owed to multilateral institutions or to other nations?

Answer. In the administration's original request up to $30 million in balance of payments support to Honduras would be used to meet Hondurans debt payment commitments to multilateral institutions. This would provide Honduras needed external account relief and generated local currencies which would be jointly programmed for reconstruction activities. If Balance of Payment Support is not available, USAID will directly finance planned reconstruction activities which would have been funded by local currency generations.

Question. To date, what is the total AID operating expense costs relating to Hurricane Mitch?

Answer. To date, AID has incurred the additive cost of approximately $460,000 in operating expense costs related to Hurricane Mitch. The bulk of these expenses ($343,000) were incurred in Honduras for such items as for additional personnel costs to manage the reconstruction effort ($180,000), travel ($46,000), replace vehicles ($67,000), overtime ($19,000), and other ($31,000). This is beyond the operational expenses incurred by the Missions which have, since October, been almost exclusively focused on responding to Hurricane Mitch.

Question. How much of this funding will be made available to the AID Inspector General for performance and financial audits?

Answer. The Inspector General estimates that $2 million is needed over the next four years for audit and investigations related to hurricane reconstruction activities. We have included an initial allocation of $400,000 for these purposes in our request, and will support the Inspector General's request for the balance of the funding as it is required.

Question. According to President's official transmittal letter to Congress, of the $621 million in Economic Support Funds requested, in addition to AID, ``a number of other agencies will also play a role in the implementation of reconstruction and disaster mitigation activities.'' According to Administration documents, approximately $110 million will be made available to these other federal agencies (excluding the Department of Defense).

Please provide an illustrative list of other U.S. federal agencies (excluding the Department of Defense) and the types of programs that may be implemented with these funds.

Answer. We understand that Office of Management and Budget provided this information to the Subcommittee on February 26, 1999. A copy is attached.

Question. Please provide the Committee with a list of which federal agencies will implement programs and whether they will be through 632(a) or 632(b) agreements with AID.

Answer. The inter-agency working group on reconstruction, chaired by USAID, involves more than a dozen federal agencies. While we intend to use the Section 632 mechanism, at this time, no final decisions have been made concerning any individual agreements. As implementation planning progresses, we intend to keep the committee fully apprised of our work with other agencies and will provide the requested information as it becomes available.

[GRAPHIC(S) NOT AVAILABLE IN TIFF FORMAT]

Question. According to AID, the average size of micro-enterprise loans made available by this supplemental will be $300. What are the largest micro-enterprise loans AID anticipates making?

Answer. In Latin America microenterprise loans tend to range from $100 to $1,000 generally. While we have not defined an upper and lower limit for the loans that will be funded with emergency supplemental funds, we expect to target at the very poor. The people that suffered the most from the devastation caused by Hurricane Mitch were very poor and lived under the most precarious conditions. They desperately need to get back on their feet, will tend to request loans in the lower end and under $300 to shore up their microenterprises.

Question. According to the testimony of Acting Assistant Secretary Romero before the Committee, the administration package includes, ``* * * deferral by the USG of all bilateral obligations from these countries for the next two years.'' How much money will be freed up during this two-year period for Honduras and Nicaragua as a result of this debt repayment moratorium?

Answer. In the wake of Hurricane Mitch, the major bilateral creditors of Honduras and Nicaragua, in the Paris Club, agreed to provide, as nearly as possible, 100 percent flow relief on service of official, bilateral debt during the recovery period. In the case of Nicaragua, there were no bilateral debt payments to the United States coming due to this period, due to earlier debt arrangements.

For Honduras, a total of $205 million would have come due during the two-year period on loans from Paris Club countries. Of this, U.S. share is 41 million, $20 million in 1999 and $21 million in 2000.

Question. The reconstruction and rehabilitation request of $621 million is proposed as a supplemental appropriation to the Economic Support Fund. That means they will be merged with the other funds in the account. Given the importance of this funding, and Congressional desire to both track the use of these funds and account for their use, would you object to the creation of a special appropriations account for these funds? For reporting and accounting purposes, it would make it simpler for the Committee.

Answer. The Administration would prefer using the existing account structure, augmented by additional reporting requirements rather than creating a new account structure. However, we are not strongly opposed to a new structure and will work with the House and Senate Committees on a structure that will allow us to move forward with this important funding.

Question. For the last several years the Committee has included report language asking that USAID take advantage of the expertise and experience of the U.S. Army Corps of Engineers in Latin America. The Corps has a number of offices throughout the region, and is anxious to

assist in the implementation of USAID programs. What plans do you have for using the Corps of Engineers to manage or implement portions of the supplemental funding for Central America and the Caribbean?

Answer. We completely agree that the U.S. Army Corps of Engineers has special expertise which can be of tremendous value to the Central American Countries as they reconstruct after Hurricane Mitch. In fact, the Corps has been involved from the early days of the relief and recovery effort. They produced an assessment for the transportation, public utilities, social infrastructure and housing sectors which estimated $8.5 billion in damages. We have shared this assessment with numerous other countries and donors and it has been invaluable in assisting with planning for reconstruction activities. The Corps has also been assisting other U.S. government agencies in their proposed involvement in reconstruction. We expect that the Corps' unique capability in the areas of floodplain and landslide analysis, risk management and construction supervision will be particularly useful to the Central American Countries and that the Corps will, therefore, have a significant role in the reconstruction for which the supplemental funding is being sought.

Question. The supplemental request focuses primarily on activities and programs that can be completed in the next 18 months. That is as it should be. However, it may be years before Central America is fully recovered from the effects of Hurricane Mitch. The fiscal year 2000 budget request of USAID for development assistance in the Latin America region is $309 million, a reduction of $12 million from the 1999 allocation of $320 million. That means the ongoing development activities in the region are declining. Can you explain why this is the case?

Answer. The total DA request for the LAC region in the FY 1999 CP was 297.4 million. Thus the FY 2000 CP request level of $309 million actually represents an increase of approximately $12 million over the FY 99 request.

The actual FY 1999 appropriation of $320 million reflects an increase of approximately $22 million over the CP request level. This is due primarily to the combination of $30 million in Emergency Child Survival Supplemental resources allocated to the countries affected by Hurricanes Mitch and Georges and a cut of $8 million in the proposed Presidential summit Initiative for Central American trade.

Question. As part of the regular fiscal year 1999 appropriations act, the Congress provided an emergency supplemental of $50 million for the Child Survival and Disease Programs Fund. You already have those funds available for activities in Central America and the Caribbean. How are they being used? Are they being allocated for disaster relief and humanitarian assistance in the region right now?

Answer. USAID is using $30 million of the $50 million of the Emergency Child Survival funds to address immediate and critical child survival and public health needs resulting from Hurricanes Mitch and Georges in Central America and the Caribbean. Of this amount, $24 million is being used for Hurricane Mitch recovery in Central America and $6 million for Hurricane Georges reconstruction in the Dominican Republic. Funds will support vector control and disease surveillance to prevent outbreaks of infectious diseases, including cholera, dengue, malaria and leptospirosis; resupplying medicines and medical supplies; and rebuilding vaccination cold chains; intensive public health campaigns and community efforts to improve health conditions; public education efforts on good health and hygiene practices in shelters and other temporary facilities, and restoration/rebuilding of small-scale

water distribution and; sewage systems to control the spread of water-borne diseases. A country-by-country breakdown is attached.

[GRAPHIC(S) NOT AVAILABLE IN TIFF FORMAT]

Question. Approximately $40 million of the supplemental request is intended to deal with the effects of Hurricane Georges in the eastern Caribbean. How will these funds be used, and how much of the funds will be committed for Haiti?

Answer. Dominican Republic: $29 million will be used to finance recovery and reconstruction in: health (immunization programs, primary health care, water/sanitation systems); shelter (building materials, housing credit); economic reactivation (microenterprise credit, rehabilitation assistance for small farmers, improvement of marketing systems, policy reform, soil erosion prevention); and disaster preparedness/mitigation.

Haiti: $9.8 million will be used for: public health (rehabilitation of damaged health, water and sanitation infrastructure); economic reactivation (emergency seed crop program, reconstruction of small irrigation and drainage systems, construction of feeder roads); disaster mitigation/planning (identification of best management practices, including soil conservation techniques); and community self-help programs (to enable local communities and governments to implement small projects designed to rehabilitate damaged infrastructure).

Eastern Caribbean: $3 million will be used for: housing and school rehabilitation; disaster mitigation planning/implementation; and agricultural reactivation.

Question. According to the information provided to the Committee, $291 million of the supplemental funds will be allocated for programs in Honduras and $94 million will be available for Nicaragua. Other countries would receive lesser amounts. How did you develop country allocations? Do these numbers represent all funds that might be provided for Honduras and Nicaragua?

Answer. The funding allocations represent levels proposed by LAC field Missions, based upon each Mission's assessment of the damage in each country and the sectoral areas in which USAID has a comparative advantage or program in place that could easily be refocused to provide reconstruction support. Missions also assessed what other donors and host governments were proposing to do to ensure that USAID's work is complementary to and not duplicative of others.

USAID proposes the following levels of hurricane reconstruction support per country:

	In millions
Hurricane Mitch:	
Honduras [1]	291
Nicaragua [1]	94
El Salvador [1]	21
Guatemala [1]	25
Regional [1]	27
Hurricane Georges:	
Dominican Republic [1]	29
Haiti [1]	9.8
Eastern Caribbean [1]	3.0
Colombia Earthquake	10
New Horizons	56
Central America	48

Dominican Republic	8
Total assistance	677

[1] (The above numbers do not include the $111 million in funds for programs to be implemented by agencies other than USAID. These agencies will make appropriate allocations as programs are further developed.)

Question: Could you provide the Committee with a chart that displays the proposed allocation of all the funds in the supplemental request by country and by program area, including allocations that were provided out of existing funds?

Answer. Please see the attached chart.

[GRAPHIC(S) NOT AVAILABLE IN TIFF FORMAT]

Question. One of the biggest issues of concerns for our members is the possibility of corruption in the use of our foreign assistance dollars. In that regard, we must be particularly careful that humanitarian and disaster assistance does not end up in the pockets of those for whom it is not intended. The supplemental request includes up to $10 million to design implement anti-corruption programs. In addition, $12 million is planned to help local governments manage reconstruction assistance, including anti-corruption training to avoid diversion of assistance. Training is fine; but just because someone is trained to be honest doesn't mean they will be honest.

Can you explain the details of these requests?

Answer. The transparent and effective use of funds is a top priority for USAID, other international donors, and the countries involved. We have created an inter-agency working group to coordinate donor efforts to guard against corruption and develop common solutions. The countries themselves have shown their commitment to these efforts to create strong accountability mechanisms. We are focusing on solutions that ensure both the proper use of funds and the quality of the reconstruction work itself.

In Nicaragua, the IDB is funding an oversight committee to create a credible mechanism that will work both with the national ministries charged with the reconstruction process and will report directly to donors. In Honduras, the GOH has asked USAID to support an independent Inspector General to monitor the use of funds and conduct monitoring and oversight reviews of on-going reconstruction efforts. Currently, OTI has pledged $.5 million to this endeavor but it remains flexible if the need turns out to be greater. In addition, we recently signed a $400,000 agreement with the Comptroller General in Honduras to enable the GOH to contract an international accounting firm to enhance its auditing capabilities.

The $12 million allocated to local governments will bolster their capacity to carry out public services pushed to the limit by the emergency circumstances. Ensuring the capacity of local governments to meet the needs of their citizens is a high USAID priority. We plan a multilevel approach to ensure the proper use of these funds. The first is training of local public officials in correct and effective financial and administrative management, including the introduction of

financial systems that enhance transparency. The second tier of this anti-corruption approach is the function of the independent Inspector General (detailed above) that will monitor reconstruction efforts at the local level. Finally, we want to support civil society in its role as a watchdog and to encourage local citizens and businesses to fully participate in the reconstruction process, recognizing their stake in the proper and most efficient use of funds.

In addition to the $12 million initiative described above, the Department of State will support law enforcement by designing and implementing anti-corruption programs, including the development of internal audit/oversight mechanisms and automated immigration records to facilitate information sharing at all border-crossing points.

Question. Describe funding that will be provided to the USAID Inspector General to monitor and audit the use of taxpayer's funds?

Specifically, how much will be provided to the Inspector General?

Answer. The Inspector General estimates that $2 million is needed over the next four years for audit and investigations related to hurricane reconstruction activities. We intend to make an initial allocation of $400,000 from supplemental appropriation funds for these purposes. We intend to request an additional $1.6 million as part of the regular appropriation for the Inspector General in the third and fourth years following enactment of the supplemental in recognition of the fact that these audits cannot be conducted until these activities are actually carried out.

Questions for the Record Submitted by Congressman Forbes

Question. Could you please tell the subcommittee why efforts to help the survivors of Hurricane Mitch by the World Bank and the IMF are insufficient? What efforts are being made by the Europeans? Can't your existing programs cover this problem or be converted through a reprogramming to cover the costs you would like to pay?

Answer: The estimated total reconstruction costs associated with Hurricanes Mitch and Georges approach $10 billion. To help address the approximately $8 billion of damage caused by Hurricane Mitch alone, the IDB has made the single largest pledge for reconstruction assistance to date; approximately $2.2 billion. The World Bank has pledged $1.2 billion to address Hurricane Mitch reconstruction and the European Commission $285 million. All donor support for Hurricane Mitch to date totals approximately $6.3 billion.

Although donor support has been significant, it is important to consider that of the $6.3 billion in pledges, approximately $4.4 billion is for reconstruction support.

The rest represents funds already approved for emergency and humanitarian relief, immediate rehabilitation activities, and debt relief. Moreover, of the IDB and World Bank pledges, a relatively small amount is available for concessional lending to Honduras and Nicaragua due to monetary limits on development bank concessional lending. The bulk of development bank support will be available for El Salvador and Guatemala because these countries are able to borrow on non-concessional terms. Additionally, a significant level of IDB and World bank pledges represent reprogramming of planned and future loans rather than new lending.

USAID has reprogrammed over $120 million of existing resources for Hurricane Mitch, which is allowing the Agency to address some immediate construction needs. Nonetheless, this level is woefully inadequate to provide the level of support required. Moreover, because economic

losses in the countries of Central America and the Caribbean may increase without prompt action to reactivate these damaged economies, economic losses may be higher than originally anticipated. For these reasons, we believe that an emergency supplemental appropriation is necessary to allow the U.S. Government to contribute adequate and flexible grants for hurricane reconstruction in Central America and the Caribbean.

Question. There is substantial evidence to suggest that the impact of the hurricane would have been much less if local farmers had employed different farming methods. USAID and other agencies and NGO's have been active in the region for decades, presumably teaching more beneficial farming methods, yet today it appears that these efforts failed. What assurances do we have that this money will prevent any future such occurrences?

Question. USAID's programs show evidence that additional investment is required to reduce farmer's vulnerability to hurricanes of Mitch's magnitude. Many of Honduras' small farmers who carried out the improved watershed management programs funded by USAID, the German development organization and the UN's Food and Agriculture Organization weathered the storm extremely well.

However, these programs have a limited reach throughout Honduras. Therefore, watershed degradation is outstripping the focus of these programs. This has the potential of increasing the intensity of flooding during the hurricanes.

Once small farmers install improved watershed management techniques, they maintain them. However, it is difficult to get low-income farmers who are outside of the project areas to acquire these improved practices because of funding limitations that restrict our ability to reach the majority of small farmers.

These Supplemental resources are urgently needed to expand programs to improve watershed management and to protect the environment from the kind of damage that future hurricanes could cause.

Question. Has your office registered a significant increase in the number of Central Americans trying to enter the U.S. legally or illegally? What are you doing to encourage these people to stay and rebuild their countries?

Answer. We have checked with the U.S. Department of State and they inform us of the following:

While a feared mass migration of refugees from the devastation of Hurricane Mitch has not materialized, there is a sustained and significant flow of ``Mitch'' migrants headed for the United States. The majority of the increase appears to be from Honduras, the country most devastated by the hurricane.

The American Embassy in Teguciagalpa reports a 30 percent increase in applications for non-immigrant visas from November 1998 to January 1999 (The refusal rate has increased from 25 to 46 percent during the same period.) The Honduran Passport Office reported an increase in passport issuance from 200 per day before the hurricane to 600 per day after the hurricane, attributing the increase to applicant's fears of job losses and economic breakdown.

At one Honduran-Guatemalan border crossing, Honduran officials report the number of Hondurans travelling north has increased from 80 to 300 per day since the hurricane. U.S. officials visiting this checkpoint report evidence of an additional steady flow of illegal crossings in the adjacent area.

In spite of these indications of increased migration, the United States Border Patrol reports that, to date, the influx of ``Mitch''

migrants has been manageable. Hondurans have replaced Salvadorans as the highest other than Mexican group apprehended at the McAllen, Texas sector, for instance, but a total of only 287 Hondurans were apprehended in this sector in November. Although the percentage increase of ``other-than-Mexicans'' entering the country illegally may sound alarming, to date the absolute numbers do not support early fears of a wave of immigrants. For instance in Laredo, Texas, the number of detainees increased from 123 immigrants in December 1997 to 583 in December 1998. In Del Rio, Texas, the number of detainees increased from 45 to 221 in the same period.

To discourage illegal migration, we have a strong public affairs strategy: (1) highlighting the perils, both natural and man-made of, illegal immigration; (2) clarifying that Immigration and Naturalizations Service's stay of removals for Guatemalans and Salvadorans and Temporary protected status for Hondurans and Nicaraguans only applies to those already in the United States as of December 31, 1998; and (3) ensuring good media coverage of U.S. reconstruction efforts in order to give those most affected by the hurricane hope that their lives might soon return to normal.

Questions for the Record Submitted by Congresswoman Pelosi

Question. Both Honduras and Nicaragua were in the midst of negotiations when the Hurricanes struck. I believe there is a consensus to provide both these countries with significant debt relief beyond what was contemplated prior to the disaster, and indeed the Administration's request reflects that. Explain your intentions with regard to the $41 million specifically for debt relief. Quantify the benefits to both countries in terms of changes in anticipated near term debt payment schedules.

Answer. All of the $41 million in debt relief is for Honduras. In the wake of Hurricane Mitch, the major bilateral creditors of Honduras and Nicaragua, in the Paris Club, agreed to provide, as nearly as possible, 100 percent flow relief on service of official, bilateral debt during the recovery period (see attached table). In the case of Nicaragua, total Paris Club interest and amortization payments of $105 million were to come due in this period, $51 million in 1999 and $54 million in 2000. All of this has been postponed or forgiven. For the USG, however, there were no bilateral debt payments coming due in this period, due to earlier debt arrangements.

For Honduras, a total of $205 million would have come due during the two year period on loans from Paris Club countries, $100 million in 1999 and $105 million in 2000. Of this, the U.S. share is $41 million, $20 million in 1999 and $21 million in 2000.

[GRAPHIC(S) NOT AVAILABLE IN TIFF FORMAT]

Question. In addition to the $41 million requested for debt relief USAID plans to provide Honduras with another $30 million over two years to directly reduce debt payments owed to other countries and institutions. How will the provision of $30 million over two years to Honduras for the repayment of both bilateral and multilateral debt affect total payment streams during that period? What portion of their expected payments does $30 million represent?

Answer. According to the most recent estimates of the IMF, Honduras faces an unfinanced foreign exchange requirement of $110 million in 1999 and $109 million in 2000 even taking into account debt

rescheduling and forgiveness and expected other donor disbursements. In addition, the Fund projects an unfinanced GOH fiscal gap of 1,271.5 million Lempiras for FY 1999 (equivalent to US$91 million) as a result of reduced tax revenues and increased current and capital requirements (primarily the latter).

A significant portion of this unfinanced balance of payments gap represents debt service payments to the World Bank and IDB which cannot be rescheduled and which will not be covered by the Central America Trust. Total debt service to the two institutions from Honduras amounts to $405 million, $207 million for 1999 and $198 million for 2000. To date, expected pledges to the trust fund for Honduras are estimated at $62 million. Thus the proposed $30 million is less than 10 percent of Honduras's remaining unfinanced debt service requirement to the two multilateral institutions.

Question. On your intention to convert the $30 million into local currency for development purposes in Honduras, how do you intend to monitor the use of these funds, given the potential for misuse?

Answer. Funds for this purpose would be disbursed by AID directly into a separate sub account of the Central Bank of Honduras in the Federal Reserve Bank of New York established for this purpose and could be disbursed only to the World Bank and IDB. A local currency deposit, equivalent to the dollars, would be created by the Central Bank of Honduras and would be jointly programmed by the two governments for high priority reconstruction purposes.

The local currency account would be subject to audit by USAID and would, in fact, be audited on a regular basis. This mechanism has worked very well in the past in Honduras in preventing fraud and misuse. In addition, USAID is working closely with the Government of Honduras, at the latter's request, to establish mechanisms for concurrent audit of all relief and reconstruction operations to assure that funds are used efficiently, effectively, and for their intended purposes.

Question. To what extent are other countries providing direct budget support for debt relief?

Answer. To date, only the USG has proposed direct budget support for debt relief.

Question. On the $25 million intended for the Central American Emergency Trust Fund, how will this be implemented? Are other countries contributing? To what extent are multilateral institutions deferring or forgiving the cost of debt service on outstanding loans in conjunction with this Trust Fund?

Answer. Other countries-primarily European donors, without a presence in Managua and Tegucigalpa--have pledged contributions to the World Bank-managed Central American Trust Fund. This fund will disburse to the World Bank and the Inter-American Development Bank to cover debts coming due.

It is our understanding that the World Bank and the Inter-American Development Bank are not themselves deferring or forgiving debt service obligations.

Question. Reports of the environmental damages from Hurricane Mitch are frightening, in particular in Honduras which was suffering prior to the Hurricane from severe deforestation, and rapid uncontrolled urban growth. Your plans include funding for various assessments and for the significant involvement of the U.S. Geological Survey. How will assure that as we seek to restore the urban infrastructure and to rebuild the banana industry, the mistakes of the past will not be repeated?

Answer. One of the guiding principles of the reconstruction effort

has been to ensure environmental security and sustainability of what we intend to reconstruct. The work of the U.S. Geological Survey has been extremely helpful in identifying critical factors for application across several sectors, including agriculture, transportation, housing and disaster mitigation.

In Honduras, the USGS and the Army Corps of Engineers have investigated a major landslide in Tegucigalpa that effectively dammed the river and created a pool of standing and stagnant water that became a public health issue. They provided recommendations on how to open up the channel to drain the stagnant water and recommended a program of dredging, levees, and dikes to control the river and prevent major flooding in future rainy seasons. At the same time, their hydrologic studies are providing the data needed by engineers to create the design specification for rebuilding major bridges over the river in Tegucigalpa.

We will also be working through environmental NGOs to focus more attention and resources on watershed management, including forest management and possible reforestation, to prevent the kinds of landslides and erosion that contributed to damage and siltation downstream.

In Nicaragua, the U.S. Geological Survey has been extremely helpful in identifying the immediate cause of the disastrous mudslide at Posoltega--and in assessing the likelihood of future slides. The USGS has also provided expert assistance to INETER, their Nicaraguan counterpart agency, in identifying areas at high risk of future slides.

This information will be invaluable as one of the bases for the development of a coherent land-use policy, with application across several sectors, including agriculture, transportation, housing and disaster mitigation. For example, new settlements will not be established without certification that the proposed location is not in an area of high risk. Training materials and programs will be developed for existing towns and cities in areas of high risk.

In addition, the U.S. Department of Agriculture is coordinating an Emergency Watershed Protection Program with USAID's Office of Disaster Assistance and the Nicaraguan Ministry of Agriculture and Forestry. This program will stabilize rivers and streambeds that were damaged during Mitch, and protect critical infrastructure that has already been re-built. This emergency program will serve as a building block for medium-term strategy to guide development in an environmentally sound manner, such as reduction of deforestation rates and implementing sustainable agricultural methods.

Question. Your plan calls for the building of 6,400 new houses. How will this be accomplished, directly or through a loan guarantee program?

Answer. Based on the limited availability of damage assessment information in early November, our initial estimate of beneficiaries of housing assistance was on the order of 6,400 units or families. USAID has subsequently conducted on-the-ground assessments in the Dominican Republic, Nicaragua and Honduras. After review of this work, it is now estimated that the target population for housing assistance in the Dominican Republic and Honduras will be on the order of 11,000 families or more. Reaching this target will depend not just on needs but also on the availability of resources, including the contribution of other donors and national governments (which is still uncertain).

Implementaion is expected to be carried out by a combination of NGOs (both local and international), private developers, and national public housing and infrastructure institutions. The mix of implementing

entities depends on country-specific conditions and the geographic location of targeted families. Given the indebtedness of the countries in question, it is not anticipated that loan guarantee resources will be used in the immediate reconstruction phase. USAID housing assistance is not expected to be primarily in the form of grants, but could possibly involve the use of small home improvement loans to facilitate progressive development of permanent housing units.

Question. While the countries of Central America have made significant progress towards democratization on a national level, they still have not addressed the critical need to strengthen municipal governments. In most cases, municipalities in both Honduras and Nicaragua have no source of independent revenue, and are wholly dependent on national governments for resources. How does the package address this generic problem?

Answer. In general, we believe municipalities have a critical role in the reconstruction process in determining local priorities, meeting the basic needs of local residents, and assuring that their constituents participate in the decisions that affect their lives. In Honduras, reconstruction and repair of local water and sanitation facilities will continue in partnership with the municipalities where involvement and employment of the local populace is critical to their physical reconstruction and ongoing maintenance. Similarly, Honduran municipalities have been charged with addressing the housing issue for those families displaced by the hurricane. USAID is already working directly with the municipalities and local NGOs to identify permanent housing solutions for those people now in temporary shelters. Finally, USAID will draw upon the experience of its ongoing municipal development program to provide direct technical assistance and training to municipal officials and staff in areas such as financial management and accountability, land use planning and disaster mitigation.

In Nicaragua, where we already had relationships with local governments, USAID increased assistance to seven municipalities that were heavily affected by the Hurricane. USAID is strengthening local governments' capacity to handle the demands of reconstruction including developing multi-year investment programs, increasing citizen participation and improving basic services, particularly in the sectors of basic infrastructure, health and education. USAID is providing technical assistance to the association of Nicaraguan Municipalities to help assure that municipal priorities are reflected in the reconstruction agenda.

Question. Will resources be provided directly to municipalities as they were during the reconstruction effort in El Salvador?

Answer. Yes. USAID is making a deliberate effort to channel reconstruction assistance and the resources of its regular development program through local organizations and municipalities, and to regional units of government ministries. Municipalities will play an important role in setting priorities for reconstruction efforts, reviewing proposals, and overseeing the work by other national, NGO, or private sector entities who will handle the process of contracting with Honduran firms to undertake construction or rehabilitation tasks.

Other donors have voiced their decision to similarly encourage a decentralized approach to reconstruction.

Question. How will you force the national level governments to provide more resources directly to municipalities?

Answer. We share the concern that municipalities need access to more resources and we recognize that the municipalities took on a huge financial burden during the emergency itself and now during the

reconstruction phase, with very little outside assistance. Honduran municipalities have made significant progress in developing sources of financing outside of central government transfers, in part because the central government has provided only a small percentage of the resources they are required by law to transfer to municipalities. USAID has been actively assisting municipalities in their efforts to mobilize local resources, through collection of local taxes and fees, to cover their recurrent costs and to finance investments in services and infrastructure. USAID will also be looking at possible development of other municipal financing options to improve the ability of municipalities to access resources and respond to citizen needs. USAID is also supporting the Association of Honduran Municipalities (AMHON) which represents the interests of municipal governments in Honduras. This association of mayors and municipal officials has successfully lobbied for direct election of mayors and for other municipal interests. AMHON has also pressed the government to provide them with the full transfer of resources required by law (currently they receive 1.5% of the national budget, when a 5% transfer is required).

Similarly, in Nicaragua USAID's Municipal Autonomy and Development Program is working at the national level providing assistance to the Nicaraguan Association of Municipalities (AMUNIC) to increase the power of the local governments to influence central government policies and to their capacity to propose legislative reforms supportive of decentralization. USAID has provided technical assistance in the drafting of legislation to give more autonomy and resources to the municipalities. Addition USAID assistance will be aimed at passage of a national municipal transfer in order to implement the 3% national budget transfer to the municipalities.

Question. In Nicaragua, the issue of land ownership and housing is particularly volatile due to the civil war and its aftermath. How will U.S. funds be used in Nicaragua, and how do the Nicaraguans themselves intend to address the ownership issues so that reconstruction can take place?

Answer. USAID plans to fund construction of temporary shelters for 4,000 families around the country, targeting the hard hit departments of Leon and Chinandega. The International Federal of REd Cross will implement this $1.5 million program to build temporary shelters on or near sites wit clear land titles selected for and guaranteed to receive permanent housing. Other donors and international institutions, including the Organization of American States, Taiwan, France, Germany, the International REd Cross, and the World Bank, are all working to assist Nicaragua to reconstruct homes damaged by Mitch and to build new permanent housing for families who lost their homes.

The Government of Nicaragua clearly recognizes the importance of settling all land ownership issues before new housing is constructed. The Nicaraguan Social Action Secretariat has $1.2 million available to buy land for municipalities to do housing. In addition, some municipalities have received direct donations to purchase land for resettlement.

Questions for the Record Submitted by Congresswoman Kilpatrick

Question. What oversight will occur within each country receiving assistance and for the various assistance programs that USAID will administer to ensure that the likelihood of corruption will be severely reduced?

Answer. All USAID assistance is subject to procedures already in

place to ensure accountability of all U.S. funds. These measures include: Standard Agency audit procedures as set forth in the Inspector General's Audit Guidelines. Each Mission Controller is responsible for establishing specific internal controls within each project activity. Prior to disbursement of any U.S. funds, the Controller will review each implementing entity's accounting procedures and internal management controls to ensure their acceptability. At the end of every grant or contract, a certified audit by an independent public accounting firm is required.

In Honduras and Nicaragua, we are also addressing the issue of other funds provided to those governments by strengthening the capacity of their Comptrollers-General to audit the activities of line ministries in delivery of reconstruction assistance. In Honduras, for example, we have provided funds for the Controller General to contract an international firm to assist them in carrying out their audit function. In Nicaragua, USAID and the World Bank have taken the lead in assisting the government to install an integrated financial management system. The system will standardize procedures in all government ministries, ensure transparency and strengthen the Comptroller-General's capacity to review financial transactions government-wide, including uses of reconstruction assistance.

In addition, we have joined the IDB, the World Bank and other bilateral donors in discussions with the Governments of Honduras over the creation of independent oversight mechanisms that would report to the donors and to the host governments on particular areas of vulnerability, such as contracting and procurement. Similar discussions have taken place in Nicaragua. President Aleman wrote to President Clinton in December 1998 to request assistance in developing such a mechanism. In the meantime, he has named a government Oversight Committee, composed of three prominent Nicaraguans with extensive experience in dealing with international financial institutions to develop a strategy in this area. We will keep the committee fully informed of these efforts and how we plan to support their development and operation.

Question. In your testimony, you mentioned Honduras, Nicaragua, Guatemala and EL Salvador in Central America. You also mentioned the Dominican Republic and the Caribbean as areas that were affected by Hurricane Georges and as areas that will receive assistance from the U.S. Can you identify which areas or territories will receive U.S. assistance. How much assistance will each of these Caribbean areas receive?

Answer. Countries receiving supplemental assistance for reconstruction from Hurriance Georges:

	In millions
Dominican Republic	$29
Haiti	9.8
Eastern Caribbean \1\	3
Total	41.8

\1\ Includes St. Kitts, Nevis, Antigua and Barbuda.

Question. We know that in most societies women and men play very different roles. Some anecdotal evidence from Honduras and Nicaragua shows some gender differences that should be taken into account when developing and delivering programs. Will there be assurance that the

funds in this bill will be equitably distributed to the women of the region?

Answer. In the reconstruction planning process, one of our guiding principles is the necessity of reaching out to historically marginalized actors: the poor, indigenous groups and women. We believe that the reconstruction planning and implementation process must take gender concerns into account. During the relief effort, we saw that women played a central role as community leaders, as relief workers, as the head of small and micro-businesses and often as the head of families. We recognize that leadership role and want to strengthen and support it in the reconstruction process.

We also know that women play a critical role in implementing importing public health practices that prevent the spread of infectious diseases. USAID has long emphasized the importance of girls education and will work to assure that the disruptions caused by Hurricane Mitch do not disproportionately affect the ability of girls to have access to basic education.

In the area of microenterprise, we know from our long track record in this area that 80% to 90% of the loans go to women. In Nicaragua, USPVO ProMujer is a key USAID partner delivering credit to women microentrepreneurs in Leon and Chinandega, two departments hard hit by Mitch. Before Mitch, USAID relied on partners like ProMujer as sources of information on our customers' real needs. Even more so after Mitch, ProMujer not only gave voice to the business needs of its members, but also helped define the broader needs of the community in distress.

USAID will have expert advice on gender factors related to reconstruction from our Global Bureau's Women in Development (WID) office as we design activities in environmental management, community infrastructure rehabilitation, food-for-work and cash-for-work, agricultural recovery, microfinance, public health and education. In the aftermath of a disaster, the opening for women's participation enlarges simply because women's participation is essential for full recovery. USAID will take advantage of these special circumstances to increase women's participation across our programs.

Question. Will the U.S. monies within the supplemental that are allocated for debt relief be used to assist in reducing the debt that Honduras and Nicaragua currently owe to other nations? Will the $25 million in funds that are allocated for a contribution to a Central America Emergency Trust Fund to cover the cost of debt service owed by the affected Central American countries to the World Bank and International Financial Institutions be used to pay or service these debts these countries owe to other nations?

Answer. No, monies within the supplemental that are allocated for debt relief will not be used to reduce the debt that Honduras and Nicaragua currently owe to other nations. Funds from the World Bank's Central America Trust Fund can only be used to pay debt obligations to the World Bank itself and the Inter-American Development Bank. In addition, the creditor countries of the Paris Club have agreed to provide as nearly as possible one hundred percent flow relief to Honduras and Nicaragua on debt service these two countries owe them. This means that each country has agreed to forgive or reschedule debts owed to it by whatever mechanism it uses in such circumstances. Other, non-Paris Club creditors are expected to provide similar treatment.

Submitted to Department of State

Questions for the Record Submitted by Chairman Callahan

Question. Is there a precedent of a United States contribution to a fund to pay debt owed by other countries to multilateral development banks, such as the World Bank and the Inter-American Development Bank?

Answer. There is no direct precedent for such a contribution. However, the Administration has also requested funds from Congress for a U.S. contribution to the HIPC initiative, which would pay multilateral development bank debt for highly-indebted, poor countries that have implemented the appropriate policies to restore macroeconomic stability and investor confidence.

Question. Haven't we helped create the enormous debt burden many of these countries face, by offering loans through development banks at deeply subsidized rates with delayed payments? Who could resist accepting such loans?

Answer. Development bank loans are offered on concessional terms subject to a conditionality that requires the borrowing country to meet certain criteria intended to set it on the path to economic recovery and a sustainable macroeconomic policy framework. Project loans are intended to assist the borrowing country in developing needed infrastructure, which in turn should contribute to economic growth and enable it to repay the loans. In some cases, unforeseen circumstances have occurred that have limited the level of economic growth in borrower countries, making their debt burdens unsustainable.

Question. Why are we being asked to cover the costs of payments to multilateral development banks? These banks carry reserves; they also retain earning as a result of repayments from borrowers who do pay their bills. Why shouldn't the banks assume the costs of debtors who are not current?

Answer. The multilateral development banks have a limited ability to absorb the loss of income from loans that are not being serviced. Their funds are needed in order to preserve their preferred creditor status, which allows them to borrow at lower rates in the capital markets. In addition, repayments provide funds for future lending. Debt relief would cut the funds available for this purpose.

Question. Will there be a debt moratorium on new lending to these nations? Are we forgiving debt only to allow these nations to pile it up again?

Answer. To help recipients of Naples and HIPC debt relief avoid returning to unsustainable debt levels, the Administration favors shifting assistance from loans to grant aid to the extent possible. However, there are no legal or policy requirements preventing agencies from engaging in new lending to Nicaragua and Honduras solely because they have received debt reduction through the Paris Club. Anticipated debt reduction, together with deferral following Hurricane Mitch of debt service payments Nicaragua and Honduras would have made in the 1999-2001 period, should help ensure that those countries' debt burden will be sustainable in the future.

Questions for the Record Submitted by Congressman Forbes

Question. Could you please tell the subcommittee why efforts to help the survivors of Hurricane Mitch by the World Bank and the IMF are insufficient? What efforts are being made by the Europeans? Can't your existing programs cover this problem or be converted through a reprogramming to cover the costs that you would like to pay?

Answer. The estimated total reconstruction costs associated with Hurricanes Mitch and Georges approach $10 billion. To help address the

approximately $8 billion of damage caused by Hurricane Mitch alone, the IDB has made the single largest pledge for reconstruction assistance to date: approximately $2.2 billion. The World Bank has pledged $1.2 billion to address Hurricane Mitch reconstruction and the European Commission $285 million. All donor support for Hurricane Mitch to date totals approximately $6.3 billion.

Although donor support has been significant, it is important to consider that of $6.3 billion in pledges, approximately $4.4 billion is for reconstruction support. The rest represents funds already approved for emergency and humanitarian relief, immediate rehabilitation activities, and debt relief. Moreover, of the IDB and World Bank pledges, a relatively small amount is available for concessional lending to Honduras and Nicaragua due tomonetary limits on development bank concessional lending. The bulk of development bank support will be available for El Salvador and Guatemala because these countries are able to borrow on non-concessional terms. Additionally, a significant level of IDB and World Bank pledges represent reprogramming of planned and future loans rather than new lending.

USAID has reprogrammed over $161 million of existing resources, which is allowing the Agency to address some immediate reconstruction needs. Nonetheless, this level is woefully inadequate to provide the level of support required. moreover, because economic losses in the countries of Central America and the Caribbean may increase without prompt action to reactivate these damaged economies, economic losses may be higher than originally anticipated. For these reasons, we believe that an emergency supplemental appropriation is necessary to allow the U.S. Government to contribute adequate and flexible grants for hurricane reconstruction in Central America and the Caribbean.

Question. There is substantial evidence to suggest that the impact of the hurricane would have been much less if local farmers had employed different farming methods. AID and other agencies and NGO's have been active in the region for decades, presumably teaching more beneficial farming methods, yet today it appears that these efforts failed. What assurances do we have that this money will prevent any future such occurrences?

Answer. AID's programs show evidence that additional investment is required to reduce farmers' vulnerability to hurricanes of Mitch's magnitude. Many of Honduras' small farmers who carried out the improved watershed management programs funded by AID, the German development organization and the UN's Food and Agriculture Organization weathered the storm extremely well.

However, these programs have a limited reach throughout Honduras. Therefore, watershed degradation is outstripping the focus of these programs. This has the potential of increasing the intensity of flooding during the hurricanes.

Once small farmers install improved watershed management techniques, they maintain them. However, it is difficult to get low-income farmers who are outside of the project areas to acquire these improved practices because they have competing needs for their scarce cash resources. During periods of non-agricultural labor needs, small farmers go off-site to earn additional income. Therefore, they do not start improved watershed programs on their own. In order to reduce the vulnerability to future hurricanes, the magnitude of these improved watershed management programs has to be increased. A part of the Supplemental's economic reactivation funds will be used for this purpose.

Question. Has your office registered a significant increase in the

number of Central Americans trying to enter the U.S. legally or illegally? What are you doing to encourage people to stay and rebuild their countries?

Answer. While a feared sudden mass migration of refugees from the devastation of Hurricane Mitch has not materialized, there is a sustained and significant flow of ``Mitch'' migrants headed for the United States. The majority of the increase appears to be from Honduras, the country most devastated by the hurricane.

The American Embassy in Tegucigalpa reports a 30 percent increase in applications for non-immigrant visas from November 1998 to January 1999. (The refusal rate has increased from 25 to 46 percent during the same period.) The Honduran Passport Office reported an increase in passport issuances from 200 per day before the hurricane to 600 per day after the hurricane, attributing the increase to applicants' fears of job losses and economic breakdown.

At one Honduran-Guatemalan border crossing, Honduran officials report that the number of Hondurans travelling north has increased from 80 to 300 per day since the hurricane. U.S. officials visiting this checkpoint report evidence of an additional steady flow of illegal crossings in the adjacent area.

In spite of these indications of increased migration, the United States Border patrol reports that, to date, the influx of ``Mitch'' migrants has been manageable. Hondurans have replaced Salvadorans as the highest other-than-Mexican group apprehended in the McAllen, Texas sector, for instance, but a total of only 287 Hondurans were apprehended in this sector in November. Although the percentage increase of ``other-than-Mexicans'' entering the country illegally may sound alarming, to date, the absolute numbers do not support early fears of a wave of immigrants. For instance, in Laredo, Texas, the number of detainees increased from 123 immigrants in December 1997 to 583 in December 1998. In Del Rio, Texas, the number of detainees increased from 45 to 221 in the same period.

To discourage illegal migration, we have a strong public affairs strategy: (1) highlighting the perils, both natural and man-made, of illegal immigration; (2) clarifying that Immigration and Naturalization Service's stay of removals for Guatemalans and Salavadorans and Temporary Protected Status for Hondurans and Nicaraguans only applies to those already in the United States as of December 31, 1998; and (3) ensuring good media coverage of U.S. reconstruction efforts in order to give those most affected by the hurricane hope that their lives might soon return to normal.

Questions for the Record Submitted by Congresswoman Kilpatrick

Question. What are our (U.S.) long-term plans to develop the infrastructure of the affected region?

Answer. According to the Preliminary Damage Assessment Report prepared by the U.S. Army Corps of Engineers on November 23, 1998, the four countries most deeply affected by last year's hurricanes (El Salvador, Guatemala, Honduras and Nicaragua) sustained total infrastructure damages of $8.5 billion. This total includes damage of $5.2 billion to public utilities (water systems, power and telecommunications); $1.5 billion to housing stock; $1.2 billion to transportation infrastructure (roads, bridges, railways, seaports and airports), and $585 million to social infrastructure (hospitals, public buildings and schools).

The global assumptions used by the U.S. Army Corps of Engineers are

that the infrastructure will be replaced or repaired to the same quality as existed prior to the damage, but that pre-existing facilities which did not meet minimum acceptable international standards (such as for wastewater treatment) would be upgraded to international standards. It is important to mention that the definition of `minimum acceptable international standards' will be the product of discussions between the donor countries, host countries, and implementing organizations.

The United States government is working closely with the host governments and the donor community to ensure that each country's comprehensive reconstruction plan:

(a) ensures participation by end users in setting priorities;

(b) incorporates disaster mitigation and preparedness;

(c) is compatible with sound environmental practice;

(d) is attentive to equity concerns;

(e) incorporates local governments as key implementing mechanisms, and

(f) includes measures to ensure accountability and transparency in the use of assistance funds.

Question. What have the Central American nations contributed to their own infrastructure development?

Answer. Since Hurricane Mitch, the Central American governments have devoted substantial resources to emergency infrastructure repair. Honduras and Nicaragua restored critical transportation and communication lines, repaired water and sewage lines, and organized volunteers to clean up after the disaster.

Governments have also developed and are continuing to refine comprehensive long-run reconstruction and development plans. With regard to large infrastructure projects, it is expected that the Inter-American Development Bank and the World Bank will provide a significant portion of their financing. Smaller reconstruction projects, which account for the majority of the needs, are primarily the responsibility of Central American governments and the private sector, with some assistance from international donors. This is especially the case for housing and numerous smaller transportation projects, local schools and local clinics.

The Central American governments are also contributing to their reconstruction by reviewing and revising their laws and procedures to attract more private investment, such as new investment and privatization laws recently passed by Honduras.

The U.S. Agency for International Development is assisting national and local entities develop community action plans, with strong participation of local governments and citizens, in order to help host governments develop local initiatives which will contribute to infrastructure repair and development.

Question. Is there a role for the private sector in the reconstruction of Central America? Is there a role for the Overseas Private Investment Corporation (OPIC), the U.S. Trade Development Agency (TDA) or the Export-Import (Ex-Im) Bank?

Answer. Well-focussed governmental efforts are a critical part of reconstruction but are expected to be dwarfed by the efforts and financing coming from the private sector, both local and foreign. The conference on Central American and Caribbean Reconstruction which was sponsored by the Administration in Washington on December 15, 1998, focussed not only on the contributions which the private sector could make to the region, but also on the opportunities for trade and investment which reconstruction offers to the private sector.

Some of the initiatives taken or to be launched by the Administration in support of the private sector include: enhancement of the Caribbean Basin Initiative legislation to expand trade with the region, submission of Bilateral Investment Treaties (BITs) for Honduras and Nicaragua for Senate approval, and planned signature of a BIT with El Salvador, expansion of OPIC activities through a $200 million credit line in cooperation with US private banks for investment in the region, expansion of Export-Import Bank activities (including a $50 million Memorandum of Understanding signed on February 24 with the Banco Centralamericano de integracion Economica) to enable private businesses and government agencies to obtain critically needed financing for U.S. raw materials, spare parts, capital equipment, etc. TDA is ready to move quickly to assist potential U.S. investors in infrastructure projects as specific opportunities are identified.

W I T N E S S E S

	Page
Atwood, Brain	115, 217
Grandmaison, J.J	1
Harmon, J.A	1
Munoz, George	1
Romero, P.F	217

I N D E X

Export and Investment Assistance
(James A. Harman, President and Chairman, Ex-Im Bank)
(George Munoz, President and Chief Executive Officer, OPIC)
(J. Joseph Grandmaison, Director, TDA)

	Page
African Development Fund	67
Asia	95
Authorization to Finance Helicopters	52
Azerbaijan	106, 107
Brazil	96, 103
Budget Increase	83
Caspian Oil and Gas Pipelines	103
Caspian Sea Development	59
Chairman Callahan's Opening Statement	1
China	73
Climate Change	93
Commerical Opportunity	51
Corruption and Organized Crime	94
Debt Forgiveness	66
Dual-Use Exports	82
Environment	59, 74, 80
Ex-Im Bank--China	77, 81, 82
Helicopter Sales to Turkey	84
History of Field Offices	88
Hurricane Mitch	69, 75

IMF..... 72
Indonesia..... 58
Insurance..... 87
Investment Funds.....72, 105
Large/Small Investments..... 68
Long-term Financing..... 87
Medium and Long Term Financing..... 78
More Aggressive Outreach..... 89
Mozambique..... 65
Mr. Grandmaison's Opening Statement..... 40
Mr. Harmon's Opening Statement..... 5
Mr. Munoz's Opening Statement..... 21
Ms. Pelosi's Opening Statement..... 3
OPIC.....77, 93, 97, 107
Outreach to Brokers and Banks..... 88
Pakistan..... 106
Pipelines..... 60
Potential for OPIC Services..... 104
Reauthorization..... 50
Russia..... 95
Status of Program in Russia..... 85
Sub-Saharan Africa..... 63
Trans-Caspian Pipeline..... 75
Transfer Authority..... 70
Utilization of Y2K Supplemental Funding..... 103
Vietnam.....74, 105
World Bank Activities..... 57

Agency for International Development
(Brian Atwood, AID Administrator)

Additional Expenses..... 158
Africa Food Security Initiative..... 204
Agriculture Funding..... 193
AID Budget..... 156
AID Security Costs..... 214
American Educational Institutions in Lebanon..... 201
Armenia.....148, 197
Asian Financial Crisis..... 204
Azerbaijan..... 197
Biodiversity.....187, 188, 198, 199
Biotechnology Assistance..... 208
Brazil.....170, 210
Budget Concerns..... 165
Budget Cuts.....146, 150
Centrally Funded Programs..... 188
Child Labor.....155, 210
Child Survival.....168, 187
Child Survival/Child Labor..... 178
Climate Change.....211, 212
Co-location..... 175
Computer System Problems..... 162
Cross Bordor Programs in Europe and the NIS..... 214
Dairy Development Programs..... 214
Debt Relief..... 151
Development Credit Authority.....190, 191
Development Fund for Africa.....150, 169, 191

Ecuador..... 207
Energy Efficiency..... 165
Evaluation of Democracy Programs..... 173
Expanded Threat Reduction Initiative..... 203
Family Planning in Turkey..... 161
Fiscal Oversight..... 202
Future of US foreign Aid..... 202
Health Systems..... 210
HIV/AIDS.....171, 209
Indonesian Elections.....199, 200
Market Economies..... 159
Maternal Health..... 187
Mongolia..... 197
Mr. Atwood's Opening Statement..... 126
Mr. Callahan's Opening Statement..... 115
Ms. Pelosi's Opening Statement..... 120
Nations Graduating from Developing Assistance..... 154
New Independent States.....157, 205
New Management System..... 154
North Korea..... 148
Office of Transition Initiatives Funding..... 212
Operating Expenses.....145, 176, 213
Operation Lifeline Sudan..... 200
OTI Funding Increase..... 193
Outreach..... 160
Population..... 145
Reform..... 157
Security at Ronald Reagan Building..... 174
South Africa.....152, 192
Staff Reductions..... 177
Status of USAID's New Coding System..... 188
Sudan Relief..... 201
Transition from OTI to Regular USAID Programs..... 213
Tuberculosis.....168, 197, 198, 208, 209
USAID New Management System..... 177
USAID Overseas Security..... 174
Utilization of Partnerships in Graduating Countries..... 215
Victims of Torture..... 161
Women in Development..... 200
Y2K..... 175

FY 1999 Emergency Supplemental Request for Central America
(J. Brian Atwood, Administrator, AID)
(Peter F. Romero, Acting Assistant Secretary of State for Inter-American Affairs)

Accountabiity.....255, 265
Army Corps of Engineers..... 266
Bishop Gerardi..... 280
Cash Basis..... 270
Chairman Callahan's Opening Statement..... 217
Colombia..... 279
Corps of Engineers..... 256
Corruption..... 267
Debt.....255, 257, 274, 281
El Salvador..... 280
Eligibility..... 275

Full Accountability..... 261
Guatemala..... 281
Habitat for Humanity..... 263
Honduras Debt..... 258
Housing..... 281
Hurricane Reconstruction..... 261
Inter-American Development..... 221
Jobs..... 280
Loans..... 267
Microenterprise Loans.....263, 273, 274, 281
Mine Detention Dog Teams..... 263
Mr. Atwood's Opening Statement..... 220
Mr. Romero's Opening Statement..... 240
Ms. Pelosi's Opening Statement..... 218
Nicaragua.....263, 265, 275
Notwithstanding Clause..... 277
OPIC..... 259
Religious Freedom Act..... 264
Segregation of Funds..... 277
Separate Account..... 272
Small Farmers..... 266
Supplemental Account Structure..... 260
Women and Microenterprise..... 271
Women in Development..... 278

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